INSIDE THIS WEEK: A 14-PAGE SPECIAL REPORT ON MIGRATION

The Economist

$100 oil

Germany's flourishing Jews

Bush's awful year ahead

Death of the Japanese salaryman

The search for eternal life

JANUARY 5TH–11TH 2008 www.economist.com

The world's most dangerous place

PRINT EDITION

Full contents | Subscribe
Enlarge current cover
Past issues/regional covers

NEWS ANALYSIS
POLITICS THIS WEEK
BUSINESS THIS WEEK
OPINION
Leaders
Letters to the editor
Blogs
Columns
Kallery

WORLD
United States
The Americas
Asia
Middle East & Africa
Europe
Britain
International
Country Briefings Go
Cities Guide Go

SPECIAL REPORTS
BUSINESS
Management
Business Education
FINANCE & ECONOMICS
Economics Focus
Economics A-Z
SCIENCE & TECHNOLOGY
Technology Quarterly
BOOKS & ARTS
Style Guide
PEOPLE
Obituary
MARKETS & DATA
Weekly Indicators
Currencies
Rankings
Big Mac Index
Chart Gallery
DIVERSIONS
Correspondent's Diary
RESEARCH TOOLS
AUDIO AND VIDEO
DELIVERY OPTIONS
E-mail Newsletters
Audio edition
Mobile Edition
RSS Feeds
Screensaver
CLASSIFIED ADS
The Economist Group
Economist Intelligence Unit
Economist Conferences
The World In

Print Edition January 5th 2008

On the cover
Nothing else has worked: it is time for the world's most dangerous place to try democracy: leader

Previous print editions
Dec 22nd 2007
Dec 15th 2007
Dec 8th 2007
Dec 1st 2007
Nov 24th 2007
More print editions and covers »

Subscribe
Subscribe to the print edition
Or buy a Web subscription for full access online
RSS feeds
Receive this page by RSS feed

Advertisement

The world this week
Politics this week
Business this week
KAL's cartoon

Leaders
Pakistan
The world's most dangerous place

Kenya
A very African coup

Global migration
Keep the borders open

America's economy
Aspirin, not morphine

The oil price
Peak nationalism

Letters
On urban populations, secularism, international law, cocaine, Macedonia, computers, Alaska

Briefing
Pakistan
A country on the brink

Germany's Jews
Latkes and vodka

United States
The presidency
George Bush's last year

Rudy Giuliani and Michael Bloomberg
A tale of two mayors

Chicago's public transport
Off track

On the campaign trail
Primary colour

Strip clubs
The Texas pole tax

Parks
American pastoral

Lexington
The 40-year itch

The Americas
Brazil
If redemption fails, you can still use the free bathroom

Argentina, Venezuela and America
Slush and garbage

Colombia
Camera, no action

Asia

A special report on migration
Open up
Of bedsheets and bison grass vodka
The politics of the gun
Keep out
Send me a number
You don't have to be rich
Circulate or integrate?
The long term
Sources and acknowledgments
Offer to readers

Business
Mergers and acquisitions
Whither the great wave?

Business jets
Winging it

Advertising
How not to annoy your customers

Business in Norway
Girl power

Software as a service
A question of demand

Face value
The social technologist

Briefing
Employment in Japan
Sayonara, salaryman

Finance & Economics
The euro area
Déjà vu

Buttonwood
And God created alpha

Bond insurance
Testing the waters

Japan's property markets
Building wealth

Trade
The sun sets on Cotonou

Economics focus
An old Chinese myth

Science & Technology
Abolishing ageing

Intelligent Life
CFO
Roll Call
European Voice
EuroFinance
Economist Diaries and Business Gifts
Reprints and Permissions

EIU onlinestore

Advertisement

Thailand
Counting Thaksin's blessings

Hong Kong
Democracy denied

Nuclear North Korea
Eerie silence

Taiwan
Vote, vote and vote again

Gujarat
A la Modi

Sri Lanka
Truce and fiction

Middle East & Africa

Kenya's elections
Twilight robbery, daylight murder

Nigeria
The good, the bad and the president

America and the Middle East
Yo, anyone who fears Iran

Advertisement

Europe

France
Sarkozy's testing year ahead

Italy's fiscal policy
Tax bonanza

Charlemagne
Shop-worn arguments

Britain

Immigration controls
Guarding British soil

Victorian diseases
Still with us

Commercial property
Dominoes on the skyline

National Health Service
Birthday politics

Drinking
The morning after the night before

Bagehot
The Mighty Atom

Articles flagged with this icon are printed only in the British edition of *The Economist*

International

The United Nations
The rewards of beavering away

Advertisement

How to live forever

The Methuselah mouse
Eyes on the prize

Correction: Human cloning

Books & Arts

Pakistan's nuclear ambitions
The spider's stratagem

The importance of economics
A black and white case

German art
Expressionists at war

American social history
An outsider looking in

Amazon worldwide bestsellers
HP sauce

Corrections: Rush Limbaugh and Noël Coward

Obituary

Benazir Bhutto

Economic and Financial Indicators

Overview

Output, prices and jobs

The Economist commodity-price index

Global business barometer

Trade, exchange rates, budget balances and interest rates

Markets

Stockmarkets

Advertisement

Classified ads

Jobs
Chief Executive / Deputy Chief Executive
A career in the heart of Europe ....

Business / Consumer
A Franchise to be proud of - WSI. Own the #1 Internet Marketing Franchise for $49,700 US. Full Training and Support. Apply Today.

Tenders
#1 rated internet business looking for professional consultants No previous technical experience required.
J....

Jobs
RURAL ECONOMIC GROWTH / AGRICULTURE ? ASSOCIATE / SR. ASSOCIATE
ARD, Inc.
(www.ardinc.com) has immediate ho....

Business / Consumer
#1 rated internet business looking for professional consultants. No previous technical experience required.

Tenders
Kosovo Gateway To Prosperity - Investment Opportunities
KOSOVO GATEWAY TO PROSPERITY
Investment opportu....

Sponsors' feature

About sponsorship »

An Economist Group business Copyright © The Economist Newspaper Limited 2008. All rights reserved. Advertising Info | Legal disclaimer | Accessibility | Privacy policy | Terms & Conditions | Help

Produced by =ECO PDF TEAM=
Welcome to visit www.ecocn.org

Politics this week

Jan 3rd 2008
From The Economist print edition

Pakistan's Election Commission postponed the general election due this month until February 18th. It cited the disruption caused by the violence that followed the assassination on December 27th of Benazir Bhutto, a former prime minister and leader of the Pakistan People's Party. A handwritten will left by Ms Bhutto bequeathed the party to her widower, Asif Zardari, who in turn said he would pass the leadership to their 19-year-old son, Bilawal. Pakistan's president, Pervez Musharraf, said he had invited British police officers to help the inquiry into Ms Bhutto's death. See article

The election held in **Thailand** on December 23rd showed that the party loyal to Thaksin Shinawatra, a former prime minister deposed in a coup in 2006, had won 233 out of 480 seats. It seems well placed to find coalition partners and form the next government. See article

After a bombing in the capital, Colombo, blamed on the Liberation Tigers of Tamil Eelam, the government of **Sri Lanka** said it would annul its 2002 ceasefire deal with the Tigers. The agreement has remained notionally in force despite the slide back to all-out conflict over the past two years. See article

A disreputable democracy

Mwai Kibaki, the incumbent, was declared the winner of **Kenya's** presidential election, even though his party was heavily defeated in the parliamentary election. Many domestic and foreign observers said the election was flawed. The result stirred tribal rivalries and provoked bloody protests across the country, leaving hundreds dead. See article

After a period of relative calm the new year began with an upsurge in bombings in **Iraq**. A suicide-bomber killed 30 people in an attack in Baghdad. Ten more were killed by a suicide-bomb in the city of Baquba; most of the victims there were said to be members of a local volunteer force opposed to al-Qaeda.

Slovenia became the first of the ten new east European members of the European Union to take over the club's six-monthly rotating presidency. One of its hardest tasks will be to co-ordinate the EU's response to Kosovo's likely declaration of independence from Serbia.

Cyprus and **Malta** became the 14th and 15th countries to adopt Europe's single currency, the euro. Most east European countries that wish to follow suit will have to wait, because their inflation rates are too high. But Denmark is expected to have a referendum within the next 18 months on whether to be the 16th member of the euro zone. See article

And they're off!

After months of campaigning, dozens of debates and scores of opinion polls, the process to nominate America's **presidential candidates** got under way, with Democrats and Republicans in Iowa voting in caucuses to select their preferred aspirant. New Hampshire holds its primary election on January 8th.

Colombia's FARC guerrillas failed to hand over three hostages to a reception committee organised by Venezuela's president, Hugo Chávez. The rebels said the Colombian army sabotaged the release. A lie, said Colombia's president, Álvaro Uribe, adding that one of the supposed hostages, a three-year-old boy, was probably in foster care in Bogotá. See article

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

Business this week

Jan 3rd 2008
From The Economist print edition

Venezuela's government knocked three zeros off the currency, the bolívar, in a move to fight inflation, which reached 22% in the 12 months to December. Critics said prices would continue to rise, since the new currency is not backed by changes in economic policy.

Business as usual?

The price of **oil** reached $100 a barrel for the first time in (a single) intraday trade on January 2nd. **Gold** prices traded at 28-year highs of more than $860 an ounce. See article

China's **sovereign-wealth fund** made a $20 billion capital injection into state-owned China Development Bank ahead of its probable public offering. Sovereign-wealth funds have risen to prominence during the credit crunch. After reporting its first ever quarterly loss and an additional $5.7 billion write-down related to subprime mortgages, **Morgan Stanley** recently said it would sell a 9.9% stake to China's fund. **Merrill Lynch** has announced that it will raise $6.2 billion by selling shares to Singapore's Temasek Holdings.

PHH, a mortgage and vehicle leasing company, terminated a merger agreement it had reached with General Electric in March that depended on Blackstone Group buying its mortgage business. PHH said the **private-equity** firm “was not able to obtain the requisite debt financing”, though at $1.8 billion the price of the deal was paltry compared with last year's “mega buy-outs”.

Legg Mason bailed out two of its funds tied to debt sold by **structured investment vehicles**. Several big financial companies have mounted independent rescues of SIVs, which borrow short-term. The three banks—Citigroup, Bank of America and JPMorgan Chase—that were to manage an $80 billion fund backed by America's Treasury Department and set up to buy highly rated SIV assets now say they think the measure is not necessary because of the “orderly unwinding” of SIVs.

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

KAL's cartoon

Jan 3rd 2008
From The Economist print edition

Illustration by Kevin Kallaugher

THE 2008 U.S. MODEL IS NOW ON THE ROAD!
MUD
OPINION POLL
SOUND BITES
FREE DEMOCRACY
AVAILABLE TO EXPORT!
DONATE
WHY IS IT CALLED A "FREE" DEMOCRACY...
WHEN THIS ELECTION IS GOING TO COST A BILLION DOLLARS!

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

Pakistan

The world's most dangerous place

Jan 3rd 2008
From The Economist print edition

Nothing else has worked: it is time for Pakistan to try democracy

THE war against Islamist extremism and the terrorism it spawns is being fought on many fronts. But it may well be in Pakistan that it is won or lost. It is not only that the country's lawless frontier lands provide a refuge for al-Qaeda and Osama bin Laden, and that its *jihad* academies train suicide-bombers with global reach. Pakistan is also itself the world's second most populous Muslim nation, with a proud tradition of tolerance and moderation, now under threat from the extremists on its fringes. Until recently, the risk that Pakistan might be prey to Islamic fundamentalism of the sort its Taliban protégés enforced in Afghanistan until 2001 seemed laughable. It is still far-fetched. But after the assassination of Benazir Bhutto, twice prime minister, nobody is laughing. This, after all, is a country that now has the bomb Miss Bhutto's father, Zulfikar Ali Bhutto, craved so passionately as prime minister in the 1970s.

There are many other reasons why the murder of Miss Bhutto (and some 20 other people unlucky enough to be near her) makes Pakistan seem a frightening place (see article). That terrorists could strike in Rawalpindi, headquarters of the Pakistani army, despite having advertised threats against Miss Bhutto, and despite the slaughter of some 150 people in Karachi on the day she returned from exile last October, suggests no one is safe. If, as many in Pakistan believe, the security services were themselves complicit, that is perhaps even scarier. It would make it even harder to deal with the country's many other fissures: the sectarian divide between Sunni and Shia Muslims; the ethnic tensions between Punjabis, Sindhis, Pushtuns and “mohajir” immigrants from India; the insurgency in Baluchistan; and the spread of the “Pakistani Taliban” out of the border tribal areas into the heartlands.

In search of statesmen

Miss Bhutto's murder has left her Pakistan People's Party (PPP), the country's biggest, at risk of disintegration. It is now in the hands of her unpopular widower, Asif Ali Zardari, and her 19-year-old son, Bilawal, who by rights should be punting and partying with his classmates at Oxford, not risking his neck in politics. The election whose campaign killed Miss Bhutto was due on January 8th, but the Election Commission has delayed it by six weeks. The PPP will reap a big sympathy vote. But bereft of Miss Bhutto, the party—and the country—look desperately short of leaders of national stature. Other Bhutto clan-members are already sniping at her successors.

The other big mainstream party, led by her rival Nawaz Sharif, another two-time prime minister, is also in disarray. Both parties have been weakened by their leaders' exiles, as well as by persecution at the hands of President Pervez Musharraf's military dictatorship. In truth, both Miss Bhutto and Mr Sharif were lousy prime ministers. But at least they had some semblance of a popular mandate. The systematic debilitation of their parties benefits the army, which has entrenched itself in the economic as well as the

political system. But it also helps the Islamist parties—backed, as they are, by an army which has sometimes found them more congenial partners than the more popular mainstream parties. The unpopularity of the Musharraf regime, hostility towards America, and resentment at a war in neighbouring Afghanistan that many in Pakistan see as directed at both Islam and their ethnic-Pushtun kin, have also helped the Islamists.

So, ironically, America's support for Mr Musharraf, justified as necessary to combat extremism next door, has fostered extremism at home. Similarly, in the 1980s America backed General Zia ul Haq, a dictator and Islamic fundamentalist, as his intelligence services sponsored the mujahideen who eventually toppled the Soviet-backed regime in Afghanistan. In the process, they helped create what Miss Bhutto called a “Frankenstein's monster”—of jihadist groups with sympathisers in the army and intelligence services. The clubbable, whisky-quaffing, poodle-cuddling Mr Musharraf is no fundamentalist. But the monster still stalks his security forces.

Two straws to clutch

Yet Pakistan's plight is not yet hopeless. Two things could still help arrest its slide into anarchy, improbable though both now seem. The first is a credible investigation into Miss Bhutto's murder and the security-service lapses (or connivance) that allowed it to happen. Mr Musharraf's willingness to let a couple of British policemen help the inquiry is unlikely to produce this. Every time a bomb goes off in Pakistan, people believe that one of the country's own spooks lit the fuse. Until there has been a convincing purge of the military-intelligence apparatus, Pakistan will never know true stability.

Second, there could be a fair election. This would expose the weakness of the Islamist parties. In the last general election in 2002, they won just one-tenth of the votes, despite outrageous rigging that favoured them. Even if they fared somewhat better this time, they would still, in the most populous provinces, Sindh and Punjab, be trounced by the mainstream parties. An elected government with popular support would be better placed to work with the moderate, secular, professional tendency in the army to tackle extremism and bring Pakistan's poor the economic development they need.

Sadly, there seems little hope that the security forces will abandon the habit of a lifetime and allow truly fair elections. The delay in the voting—opposed by both main opposition parties—has been seen as part of its plan to rig the results. The violence that has scarred the country since Miss Bhutto's assassination may intensify. The army may be tempted to impose another state of emergency; or it may cling on to ensure that the election produces the result it wants—a weak and pliable coalition of the PPP and Mr Musharraf's loyalists.

For too long, Mr Musharraf has been allowed to pay lip-service to democratic forms, while the United States has winked at his blatant disdain for the substance. The justification has been the pre-eminent importance of “stability” in the world's most dangerous place. It is time to impress upon him and the generals still propping him up that democracy is not the alternative to stability. It is Pakistan's only hope.

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

Kenya

A very African coup

Jan 3rd 2008
From The Economist print edition

Kenya's president steals an election, showing utter contempt for democracy and his people

EPA

THE mayhem that killed hundreds of people following Kenya's election on December 27th completes a depressing cycle of democratic abuses in Africa's biggest countries. Nigeria held its own mockery of an election last April. Scores were killed and observers pronounced it the most fraudulent poll they had ever witnessed. Congo held a more or less peaceful election in October 2006, since when the main opposition leader has been hounded into exile. And the year before that, flawed elections in Ethiopia resulted in the deaths of 199 protesters. Needless to say, the incumbents all won.

So it is easy to be angry, as well as gloomy, about African leaders' continual betrayal of the democratic values they say they hold so dear. And all the more so in the case of Kenya, which has a strong tradition of holding elections, a vibrant political culture, a relatively free press and a sophisticated economy. Given all these advantages, as we wrote before the election, Kenya had an opportunity to “set an example” to Africa and hold free and fair elections. But the country blew it.

Or, more precisely, the political elite blew it. A small cabal of politicians almost certainly stole the result by fraud (see article). In the parliamentary vote, President Mwai Kibaki's ruling party was routed. Yet in the presidential vote Mr Kibaki emerged victorious at the last moment and had himself sworn in only a few minutes later, forestalling pleas from all sides—even from the head of the election commission he himself had appointed—for a pause to investigate mounting claims of malpractice. The report of the European observers was unusually strong in its condemnation of the count.

As in Nigeria, Kenyans queued quietly to exercise their right to vote, reflecting the enormous appetite for democracy that exists on a continent that was until recently dominated by dictators and “big men”. But for democracy to survive, it is not enough to hold elections. Politicians must accept that they may have to give up office, and thus all the opportunities for self-enrichment that come their way. It is no coincidence that the most corrupt politicians are also those who cling most desperately to power—as in Kenya and Nigeria.

In stealing the election, Mr Kibaki has also invited a dangerous backlash against his Kikuyu tribe, the country's largest. Tense tribal divisions have long threatened to widen as the minority groups, including opposition leader Raila Odinga's Luo, have come to feel marginalised by the concentration of power in Kikuyu hands. If the current violence does evolve into something worse, perhaps even civil war, Mr Kibaki and his henchmen will bear much of the blame.

No time to be nice

Initially, America, which sees Kenya as a front-line ally in a war against Islamist militias in neighbouring Somalia, made the mistake of endorsing the president's re-election. Now Britain, America and the African Union are urging Mr Odinga and Mr Kibaki to talk in an effort to stop the bloodletting. That lets Mr Kibaki off the hook far too easily. All the violence should certainly be condemned, but most of the diplomatic pressure should be exerted on Mr Kibaki's supposed new government to annul the results and organise a recount—or a new vote.

If Mr Kibaki will not do this, the rest of the world should suspend direct aid to his regime and impose a travel ban on his officials. That is the least the wretched people of Kenya have a right to expect from their friends abroad.

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

Global migration

Keep the borders open

Jan 3rd 2008
From The Economist print edition

The backlash against immigrants in the rich world is a threat to prosperity everywhere

Magnum

ITALIANS blame gypsies from Romania for a spate of crime. British politicians of all stripes promise to curb the rapid immigration of recent years. Voters in France, Switzerland and Denmark last year rewarded politicians who promised to keep out strangers. In America, too, huddled masses are less welcome as many presidential candidates promise to fence off Mexico. And around the rich world, immigration has been rising to the top of voters' lists of concerns—which, for those who believe that migration greatly benefits both recipient and donor countries, is a worry in itself.

As our special report this week argues, immigration takes many forms. The influx of Poles to Britain, of Mexicans to America, of Zimbabweans to South Africa and of Bangladeshis to the Persian Gulf has different causes and consequences in each case. But most often migration is about young, motivated, dynamic people seeking to better themselves by hard work.

History has shown that immigration encourages prosperity. Tens of millions of Europeans who made it to the New World in the 19th and 20th centuries improved their lot, just as the near 40m foreign-born are doing in America today. Many migrants return home with new skills, savings, technology and bright ideas. Remittances to poor countries in 2006 were worth at least $260 billion—more, in many countries, than aid and foreign investment combined. Letting in migrants does vastly more good for the world's poor than stuffing any number of notes into Oxfam tins.

The movement of people also helps the rich world. Prosperous countries with greying workforces rely ever more on young foreigners. Indeed, advanced economies compete vigorously for outsiders' skills. Around a third of the Americans who won Nobel prizes in physics in the past seven years were born abroad. About 40% of science and engineering PhDs working in America are immigrants. Around a third of Silicon Valley companies were started by Indians and Chinese. The low-skilled are needed too, especially in farming, services and care for children and the elderly. It is no coincidence that countries that welcome immigrants—such as Sweden, Ireland, America and Britain—have better economic records than those that shun them.

Face the fears

Given all these gains, why the backlash? Partly because politicians prefer to pander to xenophobic fears than to explain immigration's benefits. But not all fear of foreigners is irrational. Voters have genuine

concerns. Large numbers of incomers may be unsettling; economic gloom makes natives fear for their jobs; sharp disparities of income across borders threaten rich countries with floods of foreigners; outsiders who look and sound notably different from their hosts may find it hard to integrate. To keep borders open, such fears have to be acknowledged and dealt with, not swept under the carpet.

Immigration can, for instance, hurt the least skilled by depressing their wages. But these workers are at greater risk from new technology and foreign goods. The answer is not to impoverish the whole economy by keeping out immigrants but to equip this group with the skills it anyway needs.

Americans object to the presence of around 12m illegal migrant workers in a country with high rates of legal migration. But given the American economy's reliance on them, it is not just futile but also foolish to build taller fences to keep them out. Better for Congress to resume its efforts to bring such workers out of the shadows, by opening more routes for legal, perhaps temporary, migration, and an amnesty for long-standing, law-abiding workers already in the country. Politicians in rich countries should also be honest about, and quicker to raise spending to deal with, the strains that immigrants place on public services.

It is not all about money, however. As the London Tube bombers and Paris's burning *banlieues* have shown, the social integration of new arrivals is also crucial. The advent of Islamist terrorism has sharpened old fears that incoming foreigners may fail to adopt the basic values of the host country. Tackling this threat will never be simple. But nor would blocking migration do much to stop the dedicated terrorist. Better to seek ways to isolate the extremist fringe, by making a greater effort to inculcate common values of citizenship where these are lacking, and through a flexible labour market to provide the disaffected with rewarding jobs.

Above all, perspective is needed. The vast population movements of the past four decades have not brought the social strife the scaremongers predicted. On the contrary, they have offered a better life for millions of migrants and enriched the receiving countries both culturally and materially. But to preserve these great benefits in the future, politicians need the courage not only to speak up against the populist tide in favour of the gains immigration can bring, but also to deal honestly with the problems it can sometimes cause.

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

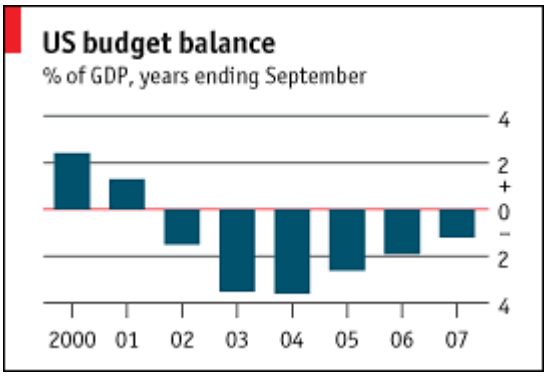
America's economy

Aspirin, not morphine

Jan 3rd 2008
From The Economist print edition

America's economy will be weak in 2008, but policymakers should dispense the pain-killers with care

Get article background



MORE drugs do not always speed a patient's recovery. And strong medicine can have unpleasant side-effects. These medical homilies are worth bearing in mind as America's economy enters 2008. With a year of weak growth in prospect and a high risk of recession, the clamour for action is getting louder. Critics charge that the Federal Reserve, which in recent months has cut its short-term policy rate by one percentage point, to 4.25%, has been far too cautious. An economy at risk, the argument goes, needs much cheaper money, and quickly.

In recent weeks luminaries such as Larry Summers, treasury secretary in the Clinton administration, and Martin Feldstein, a Republican economist, have also called for fiscal stimulus. Mr Feldstein wants a tax cut that would automatically kick in if employment fell for three consecutive months. Mr Summers wants a fiscal boost worth $50 billion-75 billion. Congressional Democrats are working on a stimulus of temporary tax cuts and spending increases. The White House is said to be exploring a fiscal package.

The political appeal of a stimulus is easy to understand. It is an election year and Americans are feeling increasingly pinched. The economy has soared to the top of voters' priorities; approval of Mr Bush's handling of it has fallen to a record low; and one poll suggests that Americans are already gloomier than they were during the 2001 recession.

But does speedier action make economic sense? In a recent speech Mr Summers argued that America risked the worst downturn since the early 1980s. Failing to deal with this, he argued, would be far costlier than loosening policy too much to avert it. If overly loose monetary policy created “undue inflation pressures”, they could be countered at a “moment of much less financial peril”. A “timely”, “temporary” and “targeted” fiscal boost could complement more monetary easing without compromising America's long-term budget health. This argument hinges on three questions: How vulnerable is the economy? What is the price of overdoing monetary easing? Will politicians design a sensible stimulus package? Each, on closer inspection, argues against rushing to action.

Cold-shower treatment

No one doubts that 2008 will be hard. The combination of a weakening labour market, slipping house prices, tighter credit and higher fuel costs will weigh on domestic spending. The price of oil hit $100 a barrel this week (see article). House prices have fallen by 5% from their peak and by all accounts have far further to go. A pessimistic survey of manufacturing published on January 2nd only deepened the gloom.

And yet, although tumbling house prices and a sharp credit contraction could indeed pull the economy into a noxious downward spiral, the evidence of such an economic disaster is, as yet, slim. The last reading of consumer spending, in November, was surprisingly strong. The stickiness of house prices suggests the drag on consumer spending will be long and grinding, not sudden and sharp. And it is worth remembering that slower domestic spending and higher saving is exactly what America needs to correct its current-account deficit.

Anyway, insuring against calamity can be costly. The last time the Federal Reserve slashed interest rates

to shore up the economy, between 2001 and 2003, it sowed the seeds of today's housing mess. Although a housing and credit collapse would be deflationary, pre-empting that risk too dramatically could be inflationary. Consumer prices are rising uncomfortably fast, and people's expectations of future inflation, by some measures, have inched upwards. If central bankers allow inflation expectations to become unhinged, they will have a nasty, protracted problem on their hands. That is why the Fed's measured pace of interest-rate cuts is prudent.

If America's economy falls into a long slump, then of course politicians should grasp the fiscal lever. That is one way to reduce the pressure for extreme monetary easing. Cash-strapped consumers in depreciating houses might respond more forcefully to tax cuts than lower interest rates. And if the mortgage mess gets bad enough, a public bail-out—say by using institutions such as the Federal Housing Administration—may prove a less damaging palliative than heavy-handed government rewriting of mortgage contracts.

But none of this means it is right to act now. With private spending weakening, not slumping, there is no case for a fiscal offset. Although America's budget deficit, at 1.2% of GDP, is not enormous, the room for manoeuvre is smaller than in 2001, when Mr Bush sold his tax cuts as a stimulus. Partly as a result, Congress is contemplating only modest actions—such as a tax rebate, more food stamps, perhaps some infrastructure spending. It is likely to be a vain exercise: unnecessary if the downturn is mild, but insufficient to deal with a truly dire mess. Like good doctors, policymakers ought to plan for the worst. But, for now, they should keep their strongest pills locked away.

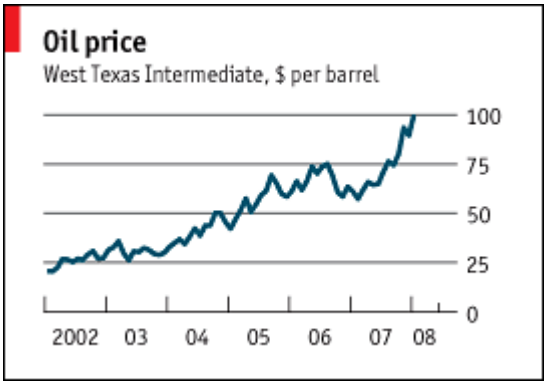
Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

The oil price

Peak nationalism

Jan 3rd 2008
From The Economist print edition

Oil keeps getting more expensive—but not because it is running out



NEW YEAR'S EVE has been and gone, but for oilmen, the party continues. On January 2nd, helped across the line by a New York trader eager for bragging rights, the first business day of the year, the price of their product topped $100 a barrel for the first time. Oil is now almost five times more expensive than it was at the beginning of 2002.

It would be natural to assume that ever increasing price reflects ever greater scarcity. And so it does, in a sense. Booming bits of the world, such as China, India and the Middle East have seen demand for oil grow with their economies. Meanwhile, Western oil firms, in particular, are struggling to produce any more of the stuff than they did two or three years ago. That has left little spare production capacity and, in America at least, dwindling stocks. Every time a tempest brews in the Gulf of Mexico or dark clouds appear on the political horizon in the Middle East, jittery markets have pushed prices higher. This week, it was a cold snap in America and turmoil in Nigeria that helped the price reach three figures.

No wonder, then, that the phrase “peak oil” has been gaining ground even faster than the oil price. With each extra dollar, the conviction grows that the planet has been wrung dry and will never be able to satisfy the thirst of a busy world.

Geography, not geology

Yet the fact that not enough oil is coming out of the ground does not mean not enough of it is there. There are many other explanations for the lacklustre response to the glaring price signal. For one thing, oil producers have tied their own hands. During the 1980s and 1990s, when the price was low and so were profits, they pared back hiring and investment to a minimum. Many ancillary firms that built rigs or collected seismic data shut up shop. Now oil firms want to increase their output again, they do not have the staff or equipment they need.

Worse, nowadays, new oil tends to be found in relatively inaccessible spots or in more unwieldy forms. That adds to the cost of extracting oil, because more engineers and more complex machinery are needed to exploit it—but the end of easy oil is a far remove from the jeremiads of peak-oilers. The gooey tar-sands of Canada contain almost as much oil as Saudi Arabia. Eventually, universities will churn out more geologists and shipyards more offshore platforms, though it will take a long time to make up for two decades of underinvestment.

The biggest impediment is political. Governments in almost all oil-rich countries, from Ecuador to Kazakhstan, are trying to win a greater share of the industry's bumper profits. That is natural enough, but they often deter private investment or exclude it altogether. The world's oil supply would increase markedly if Exxon Mobil and Royal Dutch Shell had freer access to Russia, Venezuela and Iran. In short, the world is facing not peak oil, but a pinnacle of nationalism.

None of that will help consumers or governments. The economic toll of expensive oil is just as high whether geology or politics is to blame—and the best response is just the same. Policy should encourage energy efficiency and support research into alternative fuels. Governments seeking to shield their citizens with subsidies or price caps should instead expose them to the full cost to foster frugality. All this will be hard and unpopular. But politicians might console themselves with the thought that even the most recalcitrant petro-regime is more malleable than the brute realities of geology.

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

On urban populations, secularism, international law, cocaine, Macedonia, computers, Alaska

Jan 3rd 2008
From The Economist print edition

The Economist, 25 St James's Street, London SW1A 1HG
FAX: 020 7839 2968 E-MAIL: letters@economist.com

Town and country

SIR – I take issue with the conclusion of your leader on rising food prices ("The end of cheap food", December 8th). It is a myth that the urban populations of developing countries are healthier, more literate and more prosperous than populations living in the countryside. According to UN-HABITAT, the world's one billion slum dwellers are worse off than their rural counterparts, are more likely to die earlier, experience more hunger and disease, attain less education and have fewer chances of employment.

Child malnutrition in slums is worse than that in rural areas. Urban children are also more likely to die from water-borne and respiratory illnesses. In China, a huge proportion of the rural population that has moved to cities, perhaps 150m people, enjoys neither the benefits that rural farmers receive nor the subsidies that city-born dwellers are given. Official figures in China forecast that by 2020 around 60% of the population will be living in cities or towns, many of them in slums.

The United Nations estimates that the percentage of the global population living in urban areas is expected to grow from 47% in 2000 to 60% by 2025. Most urban growth during the coming decades is expected to take place in the least developed countries primarily because of migration from rural areas. Higher food prices will further impoverish low-income urban dwellers, who are rapidly becoming the majority of the population in many of these countries.

David Bigman
Research fellow
Wageningen University
Wageningen, the Netherlands

The god delusion

SIR – Your article on the battle for the religious vote in America stated that "militant secularists" have banned "voluntary prayer in public schools" ("Baptist v Mormon", December 15th). This is not quite right. The Supreme Court has only banned prayer that appears to be led or endorsed by the government. We "militant" secularists (I was unaware we had taken up arms) do not request that personal prayer be banned. All students are free to take a quiet moment and pray. All true secularists would be outraged if it were otherwise.

Chris Bell
Hoboken, New Jersey

The legality of war

SIR – The conclusion to your leader on the wars in Afghanistan and Iraq revealed a blind spot in some otherwise insightful analysis of the prospects that could emerge for something short of victory but better than catastrophe ("Must they be wars without end?", December 15th). With regards to the conflict with the Taliban, you said that "Defeat would be a body blow...to international law, under which [NATO] had full authority to wage this war of self-defence." Under the norms of international law on resorting to war, known as *jus ad bellum*, America, supported by NATO, was exercising its right of self-defence with approval of the UN Security Council when it launched Operation Enduring Freedom in October 2001. However, the conduct of the war, especially the avoidable harm to civilians and mistreatment of detainees, raises doubt as to the conformity with *jus in bello*, international law governing the conduct of

hostilities.

More significantly, you did not address the “body blow” to international law of Operation Iraqi Freedom, launched in March 2003 without authorisation under international law. It was so contrary to international law that the British Foreign Office's deputy legal adviser resigned because she felt that “an unlawful use of force on such a scale amounts to a crime of aggression”. It has set the community of nations back at least 62 years and restores the concept of war of choice as a legitimate means of foreign policy, a distortion of international law that, if the American and British position were accepted, would encourage other “wars without end”. While democracies may, as you say, “need the courage to persevere” in just wars, Iraq is not one of them. International law is a casualty of this war, which, like Iraq, will need courageous and sustained rebuilding.

Stephen Marks
Professor of health and human rights
Harvard School of Public Health
Boston

Drug laws

SIR – It is important to point out that the decision by America's sentencing commission to reduce retroactively sentences for dealing in crack cocaine does not mean automatic release for people incarcerated for crack-cocaine offences (“Powdered wigs”, December 15th). Individuals must petition the court and judges will determine their eligibility for release while weighing the risks to public safety. Furthermore, Congress is dragging its feet over eliminating the disparity it created in 1986 when it assigned a mandatory five-year minimum prison sentence to a person who sells five grams of crack cocaine, which is the same for a person who sells 500 grams of powder cocaine. The impact of the tougher sentences handed down to crack-cocaine dealers is felt most by African-Americans, who account for more than 80% of federal convictions in crack-cocaine cases.

Jasmine Tyler
Drug Policy Alliance
Washington, DC

State solution

SIR – The problem of Greece's refusal to agree to the name of “Macedonia” for its northern neighbour is easily solved (“The game of the name”, December 8th). Let Macedonia be admitted to various international bodies under the title of “The Former Yugoslav Republic of Macedonia”, as Greece demands, but on condition that Greece itself be reseated under the name “The Former Turkish Province of Greece”. An additional advantage of this solution would be that the two countries would sit side-by-side in the United Nations, thereby facilitating constructive private discussions, or fisticuffs according to the mood of the day.

David Brewer
Puslinch, Canada

Wired out

SIR – Your observation that the internet “is most useful when coupled to the real world” is correct (“Better together”, December 8th). But I found your arguments needlessly complex. Our “virtual worlds” are only as good as the very real hardware and energy needed to run them. The point is adequately made by simply unplugging the damned computer.

Matt Simon
Boston

Looking for the right man

SIR – My husband and I enjoyed your article on spousal selection and its finding that women have better choices the higher the ratio of males to females (“A buyers' market”, December 15th). But there may be limits to this. We travelled to Alaska ten years ago and read several books on the state. One guide commented on the high male-to-female ratio in Alaska with the following statement: “Ladies, the odds

are good, but the goods are odd.”

Paula Kirby McWhinnie
Larchmont, New York

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

Pakistan

A country on the brink

Jan 3rd 2008 | GARHI KHUDA BAKHSH
From The Economist print edition

The assassination of Benazir Bhutto seems to assure a turbulent election campaign and strengthen the likelihood of an unstable government

AFP

Get article background

FOR some time Pakistan has been the main contender for the title of most dangerous country on earth. Since the murder of Benazir Bhutto on December 27th its claim has been strengthened. People are right to be worried. But is the forthcoming, postponed election doomed to be a violent shambles? And is the country itself doomed to disintegrate, fall into the hands of Islamists or lose control of its nuclear weapons to jihadists? Not necessarily. In the short run, at least, much turns on the rival interpretations of how Miss Bhutto died that day in Rawalpindi.

It went like this. A clean-shaven young man, wearing a white shirt, black waistcoat and sun-glasses, presses through the adoring scrimmage around Miss Bhutto. Almost within arm's reach of the sports utility vehicle from which the twice and would-be future prime minister waves to the crowd, as she campaigns for an election due to take place on January 8th, he pauses. Behind him is a taller figure, apparently bearded, his face shrouded in a white head-dress. Then the clean-shaven man points a pistol at Miss Bhutto, and three sharp cracks ring out.

Viewed in slow motion, on a film broadcast by Britain's Channel 4 three days after the event, Miss Bhutto's trademark white headscarf is flipped up, as if by a sudden gust. An instant later two men standing on the back of the vehicle duck their heads and Miss Bhutto slumps. Swirling chaos ensues, as a suicide-killer, believed to be the shrouded youth, pulls the pin from his bomb.

If genuine, the film seems to corroborate the first official description of Miss Bhutto's murder: that she was shot in the head just before a suicide-bomber dispatched himself, her killer and about 20 others. The leaders of Miss Bhutto's Pakistan People's Party (PPP), the country's biggest, concur. The party's spokeswoman, Sherry Rehman, who was with Miss Bhutto when she died and then bathed her corpse, says she saw entry and exit wounds in the head. But the government has since changed its version of the killing. It now asserts that Miss Bhutto, whose body was buried without an autopsy, was not shot at all; she died, according to the new version, as a result of hitting her head on the lever of the car's sun-roof while trying to escape the blast.

Baffling, almost irrelevant, as this dispute may seem, it added fuel to four days of violent rioting by PPP supporters, mostly in the southern province of Sindh, home of the Bhuttos. Indeed many Pakistanis, who

are deeply mistrustful of the government of President Pervez Musharraf, their recently demobbed ruler, consider this revision suspicious. It suggests to them that the government is somehow blaming Miss Bhutto for her own assassination—or even ridiculing her.

Whatever the truth, the conviction is widespread in Pakistan that the government had a hand in killing her. After all, she had accused a cabal of army spies and Mr Musharraf's political henchmen of plotting to kill her. And that was before a previous attempt on her life, in October, in which two suicide blasts killed more than 140 PPP supporters during a home-coming rally for her in Karachi. Her return that day marked the end of an eight-year self-imposed exile and the start of her campaign to serve a third term as prime minister.

Within hours of Miss Bhutto's death, Sindhis began to rampage. Angry mobs tore through every town in the province, burning cars, looting shops, screaming in grief for the unrivalled leader of Pakistan's main political dynasty. From within high-gated compounds rang the shrill of women's screams. In other provinces the response was less histrionic. By the time this first frenzy was over, 174 banks, 22 trains and 13 electoral offices had been looted or set alight. Over 50 people had been killed. The government puts the damage at $200m. Other responses were more measured, but also discouraging. On December 31st the main Karachi stockmarket, a high-performing symbol of the strong economic growth of Mr Musharraf's era, opened nearly 4.5% down. The rupee also dived, as capital inflows, on which much of the growth has been based, dried up like a desert stream.

For now, the violence has faded, even if the pessimism has yet to lift. On January 2nd it was announced that the election would be postponed to February 18th, immediately after the month-long Shia festival of Muharram, a time associated with mourning. This followed much haggling among the political parties. They had started to recalculate their electoral prospects even before Miss Bhutto's corpse had been interred on December 28th—at a vast Moghul-style mausoleum that she had had built for her father, Zulfikar Ali Bhutto, another former prime minister, executed for supposedly sanctioning the death of an opponent. In a country where no party can win an outright majority, and the army alternately rigs the elections and seizes power, political planning is a perilous enterprise.

Musharraf opts for Fabian tactics

In the final months of 2007, however, a fairly solid consensus had emerged about the outcome of the election. True, Mr Musharraf's blundering efforts to retain the autocratic powers he had seized nearly a decade ago had brought political turmoil to Pakistan. But rough polling, and an assessment of Mr Musharraf's best interests, suggested that the PPP and the former ruling party, the Pakistan Muslim League (Q), which is loyal to the old soldier, would emerge as the two biggest parties, neither of them with a majority. They might then have formed a coalition government, which Miss Bhutto plainly hoped to lead.

That result, minus Miss Bhutto, is now the very best that Mr Musharraf can hope for. More likely, say some pundits, is that Pakistanis will vote in huge numbers for the PPP, in sympathy for its loss. That might give the PPP an outright majority, which is no doubt why Mr Musharraf's loyalists were so eager to have the election postponed, though their demand was ostensibly to allow time to repair polling stations and replenish ballot papers. A sympathy vote could boost Pakistan's second party, led by Nawaz Sharif. The main rival in much of Punjab, Pakistan's biggest province, to Mr Musharraf's loyalists, Mr Sharif demanded that the vote be held on time. But the Election Commission, supposedly independent but in fact controlled by Mr Musharraf, ruled that this was impossible.

The PPP's new acting leader, Asif Zardari, who is Miss Bhutto's widower, will act as regent while his co-leader, the couple's 19-year-old son Bilawal, completes his studies at Oxford University. Mr Zardari had also wanted the vote to be held as planned. In agreeing to a delay, he is likely to have won some quid pro quo for the PPP. Yet Mr Zardari has meanwhile accused the former ruling party of killing his wife, and thereby made clear that the PPP is not to be trifled with. With a reputation for corruption and thuggery, earned during Miss Bhutto's two terms in power, he has reminded his main rivals that the PPP currently controls the streets.

It is a point worth making. A long delay, the PPP reasonably feared, would increase Mr Musharraf's agents' ability to manipulate the election in his favour. They have, after all, rigged all the four previous polls presided over by their master, who has also staged two coups. On December 31st PPP officials announced that Miss Bhutto had been due to hand a 200-page dossier on Mr Musharraf's latest vote-rigging schemes to some American congressmen.

Meanwhile, the dispute continues over who killed Miss Bhutto. The government says it was al-Qaeda. At least, that is the label it has attached to the alleged culprit, a Taliban warlord called Baitullah Mehsud, who holds sway over a terrorist haven along the north-western frontier with Afghanistan. Mr Zardari, like most Pakistanis, scoffs at this. “I think soon the chickens are going to lay their eggs and we will blame them on al-Qaeda,” he says. “Al-Qaeda has nothing to fear. Why would they fear us? Are they our political opponents?”

Mr Mehsud has denied having anything to do with the killing—in fact, he has called for an international investigation into the atrocity, though he may have to be satisfied with the announcement that a team of British detectives will assist with an investigation into Miss Bhutto's death. He is certainly capable of the crime. Last month it was reported that he had been elected leader of Tehrik-e-Taliban Pakistan, a new association of tribally based Islamist militias in the frontier area. Flush with Afghan drug money, and a dream of global *jihad*, these groups have gained unprecedented power during America's six-year war on terror. At America's expense, estimated at around $5 billion, 100,000 Pakistani troops have been sent to quell them. Yet they now control a vast and spreading swathe of territory. Mr Mehsud's fief, in particular, is reported to have become a hub for Pakistani and foreign jihadist terrorists. Intelligence agents say they include members of Jaish-e-Muhammad, a Pakistani outfit formerly trained by the army to fight in Indian-held Kashmir. This group is alleged to have supplied dozens of suicide-bombers for attacks in Pakistan in recent months.

One more unexplained murder

Miss Bhutto may have been killed by the same men. A Western-educated woman, who applauded America's war on terror, she was presumably not to their taste. And indeed, shortly before she returned to Pakistan, Mr Mehsud was alleged to be plotting to kill her. Similarly, within hours of Miss Bhutto's assassination, the government released what it claimed was a recording of Mr Mehsud discussing the atrocity over the telephone. It features a voice, allegedly Mr Mehsud's, asking who had killed Miss Bhutto, then rejoicing to learn that the killers were his own men. To some disinterested listeners, however, this sounded phoney. Surely Mr Mehsud would have kept closer control over such an audacious and meticulous ambush? Moreover, on the tape he is heard giving what appears to be a precise description of his position. Why, then, had the army apparently not tried to kill him?

For that matter, it is not entirely obvious that Mr Mehsud would have wanted Miss Bhutto dead. There are richer jihadist prizes in Pakistan—not least Mr Musharraf, whose removal Ayman al-Zawahiri, Osama bin Laden's deputy, has called for. Mr al-Zawahiri had not bothered to denounce Miss Bhutto, a discredited female opposition politician. Yet the campaign to dispatch Miss Bhutto was carried out with an unusual thoroughness and persistence. On the eve of an election that her party had a fair hope of winning, it is not hard to imagine that Miss Bhutto's assassination was politically motivated.

Despite the investigation that Mr Musharraf has promised, the truth may never out. Pakistan's political history is crammed with unexplained killings. They include the violent deaths of Miss Bhutto's two brothers, Murtaza and Shah Nawaz, whose bodies also lie in the family's meringue-like mausoleum in Garhi Khuda Bakhsh. (Mr Zardari was charged with ordering the death of Murtaza in a storm of police gunfire in 1996. He was later exonerated.) Another mystery surrounds the death of General Zia ul Haq, the dictator who toppled, then hanged, Miss Bhutto's father. One day in 1988 the general's plane, which was also carrying America's ambassador to Pakistan, fell to earth.

Bring on the doomsayers

On December 28th thousands of sombre men, black scarves bound around their arms, converged on Garhi Khuda Bakhsh. Many had served the lofty Bhuttos. Passing the charred carcass of a train and several gutted government buildings, they streamed in to see Miss Bhutto buried, shouting “Hang Musharraf!” as they came. “This is civil war. It is worse than Iraq,” said one mourner, Zulfikar Ali Mirza, a black-clad PPP stalwart with an assault rifle wedged beside the seat of his car. “I see no more map of Pakistan. She was the only link between the four provinces. Now there is no future for Pakistan.”

It is Pakistan's particular misfortune that its progress tends to be measured against exaggerated doomsday prophecies such as this. Three are most popular. The first, which is as old as Pakistan itself, decrees that the place will fragment (history is not encouraging: born of partition in 1947, the country lost its eastern component in 1971). The other two are more recent. One is that Pakistan, like neighbouring Iran, will fall to Islamists—perhaps even of Mr Mehsud's vicious kind. A related fear is that terrorists will get hold of the country's nuclear arsenal. All three nightmares are very unlikely in the short term, but may be increasingly possible.

To be clear, Pakistan is bitterly divided. Punjab dominates the economy and the army. In other parts of the country military rule—which Pakistanis have known for over half their history—is considered Punjabi rule. Every decade or so, in Sindh, Baluchistan and North-West Frontier Province (NWFP), Punjabi troops are dispatched to quash an insurgency. The army is currently attempting this task in both Baluchistan and NWFP, on several fronts. NWFP has always been so rebellious that no Pakistani government has dared to call it by its logical name, Pushtunistan, for fear of rallying the Pushtun tribesmen who live there. But the army is still quite strong enough to prevent any chunk of Pakistan from splitting off.

The other prophecies are more sobering—given the current security crisis on the Afghan frontier, and a history of institutional Islamism within the army itself. The American-backed campaign in north-western Pakistan has gone badly. It has almost certainly spawned much more radicalism and terror than it has ended. Baker Atyani, head of the al-Arabiya television office in Islamabad, says he receives two or three videotapes every week from local and foreign jihadist groups along the frontier—many more than he can broadcast. Clearly, Pakistan has a long-term problem with militancy. And the prevalence of jihadist sympathies within the army also remains a concern. For whatever reason, many soldiers on the frontier are demoralised: at least several hundred have surrendered to untrained bandits. Nonetheless, despite these concerns, a strong majority of Pakistanis remain moderate.

It is right to worry about these, perfectly imaginable, calamities. And yet, again and again, governments at home and abroad, civilian and military, have let such nightmares distract them from dealing with Pakistan's pressing political problems. Force, the army's preferred solution, is invariably insufficient to provide solutions. For example, so long as marginalised Baluchis, whose vast western province is Pakistan's richest in minerals but poorest per person, do not receive a fair share of state spending, they will periodically rise up. Instead of slapping them down—as Mr Bhutto did in the 1970s, and Mr Musharraf does now—the government will one day have to give them a fair deal.

Even in easier times, improving Pakistan's government would be a huge undertaking. To get Pakistanis to place the slightest trust in their state may take decades. And even the most sensible policies may fall short in the end. Pakistan is in a dangerous and unstable neighbourhood. It has also been miserably served by its politicians, and today the choice before the voters looks as bad as ever before.

AFP

Cast votes, not stones

Yet it is at least abundantly clear that Pakistan's rotten politics and vagabond institutions will never be put right by an army dictator, including an unreformed Mr Musharraf. On seizing power in 1999, he promised to reduce corruption, fight extremism, strengthen civil institutions and do a host of other good things. In one or two respects, he has scored impressive hits: on his watch, for example, Pakistan has enjoyed steady economic policies and some useful reforms. But, like all dictators, Mr Musharraf has increasingly subordinated his good intentions to his wish to cling to power, with disastrous results.

After his second coup, last November, Mr Musharraf abolished the press freedoms of which he had long boasted. He also sacked 60 potentially disobedient judges, and appointed many biddable idiots in their places. The damage thus done to Pakistan's judiciary, which was rotten to begin with, will take years to undo. He has also quietly dropped the architect of Pakistan's impressive economic performance, his former prime minister, Shaukat Aziz.

No more generals, please

Given this record, it is hard to imagine what beneficial role Mr Musharraf might yet play, whether he is in uniform or not. He speaks of his desire for a “democratic transition”. The first test of his sincerity will be whether Pakistanis are allowed a fair election next month. Then all eyes will be on the kind of government that emerges. In a country in a state of shock, predictions are perhaps unwise. Yet it seems as likely as not that the PPP and its pro-Musharraf rivals will, after all, form a government together, though it is unclear who might lead it.

Disappointing though she was, tainted by corruption and only dubiously democratic (she was “life chairperson” of her party), Miss Bhutto was her country's only national leader. Pakistan may not have realised how much it would miss her, until now she is gone.

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

Germany's Jews

Latkes and vodka

Jan 3rd 2008 | BERLIN
From The Economist print edition

Immigrants from the former Soviet Union are transforming Jewish life in Germany

AP

IN 1938 Julius Schoeps's parents did what many German Jews who were prescient or lucky did at the time: they left. They went to Sweden, where Julius's father worked as an archivist. Julius was born there in 1942.

Then in 1947 Mr Schoeps did something few German Jews did at the time. He went back, followed by his wife seven years later, to join what for decades was a tiny, insular community. “These were years of silence. Everyone suffered because nobody would talk about the Nazi years. My father, who taught at university, often questioned his decision to return to Germany,” says Mr Schoeps. His father grieved for his own parents, Käthe and Julius Schoeps, who had stayed behind in Germany: his mother to die in Auschwitz, his father in Theresienstadt.

German Jews who survived in Germany, or in exile, had a deeply ambivalent relationship with their homeland. Apart from guilt—that they had survived, and even stayed in the killers' country—many felt an almost physical revulsion when they came into close contact with Germans. So they retreated to live in yet another form of ghetto.

By the time the Berlin Wall fell, Germany's Jewish community had only 30,000 ageing members and was dwindling rapidly. Today it is the third-largest, and the fastest-growing, Jewish population in western Europe, after France and Britain. Between 1991, when the country was unified and immigration rules relaxed, and 2005, more than 200,000 Jews from the former Soviet Union emigrated to Germany. (At the same time, more than a million emigrated from the former Soviet Union to Israel and about 350,000 to America, leaving only about 800,000 behind.) In some parts of Germany, immigrants—usually referred to as “the Russians”—make up 90% of the local Jewish population.

A few of the so-called established Jews—those who lived in Germany before the fall of the Berlin Wall—are enthusiastic about the new arrivals. Hermann Simon, director of the Centrum Judaicum, a museum and research centre in Berlin, was born in 1949 of German parents, and grew up in East Berlin. He says that without the immigration of Russian Jews, the future for Germany's Jews would be dark.

Yet most established Jews disagree. The dapper Mr Schoeps, now director of the Moses-Mendelssohn Centre for European-Jewish Studies in Potsdam, near Berlin, argues that Germany's old Jewish heritage

is gone. Its so-called “memory landscape”—memorial sites, commemorative plaques, cultural centres and museums—is now being guarded by gentiles who are merely interested in things Jewish; the sort of people who crowd to the Chanukkah market at Berlin's Jewish Museum to sample *latkes* and *sufganiot* (doughnuts) and to sip kosher mulled wine.

As for the immigrants from the former Soviet Union, most neither know nor care about Jewish rituals and traditions. Few of the newcomers keep a kosher home. Many men are not circumcised. When they arrive in Germany, they focus on the practicalities of life—jobs, flats, social security and health insurance. They play chess rather than Skat, a popular card game in Germany. Their cultural icons are Dostoyevsky and Tchaikovsky, not Goethe and Beethoven, let alone Mendelssohn or Heine, who were German Jews.

Established Jews find the newcomers *anders* (different from us), suspect that they are not “real” Jews and think they are mainly coming in search of prosperity and material help from the state and the community. “They take whatever they can get,” sniffs one.

There is also an argument over identity. For decades, Jews in the former Soviet Union did their utmost to hide from Soviet authorities and even to destroy proof of their origins. So when Germany started to admit Jews in 1991 under the “quota refugee law” (which granted them special refugee status), many could not assemble the papers required to prove their Jewishness. Thousands are reckoned to have got into Germany with false documents.

The strictly orthodox faction in the German community, which is by far the strongest, does not accept even the majority of those who came with proper identification. According to *halakha*, or religious law, only a convert or a child born to a Jewish mother is Jewish. Jeffrey Peck, a professor at Georgetown University and author of “Being Jewish in the New Germany”, a book exploring the diversity of contemporary Jewish life in Germany, says that about 80% of the newcomers are not halakhically Jewish. Yet they are the future of Judaism in Germany.

Judenrein no more

It is an irony of history that the country that Hitler wanted to make *judenrein* (clean of Jews) now has the fastest-growing Jewish community in western Europe. Before the Nazis came to power, about 600,000 Jews lived in Germany. At the end of the war some 1,500 survived in hiding; 9,000 were in concentration camps; and 15,000 survived by marrying non-Jews. A few hundred emigrants returned from exile in Shanghai and other cities.

Between 1945 and 1952 some 200,000 Jewish displaced persons lived in camps (often disused concentration camps) and urban centres in Germany. Most were zealous Zionists. Keen to leave the camps and build a new life, they became an influential force in the political debate about the creation of a Jewish state. Most of them emigrated to Israel as soon as they could after the state's creation in 1948.

By 1950 only some 20,000 Jews remained in Germany. About 8,000 of these were native German Jews; 12,000 came from eastern Europe, mostly from Poland. They were ostracised by international Jewish organisations because they had decided to stay in the land of the perpetrators of the Holocaust. Most of them considered their sojourn in Germany to be only temporary; they were “sitting on packed suitcases”, as they put it, and travelled to Israel at regular intervals.

EPA

Defensiveness made German Jews try hard—sometimes too hard—to be better friends of Israel than any other diaspora Jews. Anthony Kauders, an historian, says that they engaged in “shaming rituals” in the 1950s and 1960s to bully fellow Jews into donating money to Israel. They had donation rankings, and sent out letters that named and shamed anyone who proved stingy. A representative of Keren Hayesod, the central fund-raising organisation for Israel, once returned DM2,500 (then $600) to a wealthy donor because it seemed too small a contribution.

Germany's growing prosperity and its readiness to come to terms with its Nazi past encouraged Jews to unpack their suitcases in the 1970s and 1980s. Cultural centres and new synagogues were built; Germany now has 89 synagogues. Jews made themselves seen and heard in public life. In 1985 Jewish protesters stopped the première

of Rainer Werner Fassbinder's “Garbage, the City and Death”, a play portraying a ruthless property developer referred to as “the rich Jew”.

Remembrance of things past

This new Jewish assertiveness became even more evident in the 1990s when Ignatz Bubis, a Holocaust survivor and chairman of the Central Council of Jews in Germany, started a public spat with Martin Walser, a well-known writer. In his speech of acceptance of the German Booksellers' Peace Prize, Mr Walser denounced the “moral battering-ram of Auschwitz” and pleaded for normality in German-Jewish relations. Mr Bubis accused him of “spiritual arson”. A heated debate among historians, politicians and journalists followed. Indeed, it became so venomous that the then president of Germany, Richard von Weizsäcker, asked the participants to “cool it”.

More recent arguments have taken place over the “memory landscape”. Hundreds of memorials now dot Germany, from concentration-camp museums to brass bricks sunk in the pavement outside ordinary houses, naming the Jews who once lived there. As is often the case with Jewish issues, Berlin saw the most heated controversies. Eberhard Diepgen, former mayor of Berlin, was unhappy about the plan to build a Holocaust memorial, the chief national symbol of atonement, in the heart of the city. In a much-criticised speech in parliament, he argued that Berlin already had many memorial sites, including the Topography of Terror, an entire block in the city centre, which once housed the headquarters of the Reich security services. On the remaining foundations, uncovered in the mid-1980s, an open-air exhibition describes what went on there in grim detail.

Even so, the city and the federal government went ahead, and in May 2005, after many delays, the new Holocaust memorial was inaugurated. It is an undulating labyrinth of 2,711 concrete blocks on a site the size of a football field near the Brandenburg Gate. It is a place where visitors are meant to feel unsettled, lost and frightened, as the murdered Jews did. And the development of the memory landscape continues: at the end of September 2007 a new glass-covered courtyard opened at the Jewish Museum Berlin, a building inspired by the sharpness and angles of barbed wire. Last March a Jewish museum opened in Munich.

The Red Army faction

Germany's new Jews are not especially interested in any of this. Most of them suffered not under Hitler but under Stalin, who murdered millions of Soviet citizens or sent them to brutal labour camps. For them, Hitler was the enemy only in a military sense. Each year in early May, when everybody else in Germany solemnly commemorates the country's unconditional surrender, the Russian war veterans among Germany's Jews march around with their military decorations to celebrate the victory over Nazi Germany. “This was their proudest hour,” says Mr Simon from the Centrum Judaicum, who campaigns to give the newcomers a voice and an honoured place. Last year he organised “From Soviet Star to the Star of David”, an exhibition of wartime memories of 13 Red Army veterans, which included their personal stories.

German Jews complain that the newcomers have only the faintest notion of Judaism and Jewish traditions. In April Mr Schoeps threatened to establish a new group of Jews in Berlin, made up of those who feel alienated by “the Russians”. The immigrant community, he complained, “resembles a Russian-speaking cultural club rather than a religious association.” Albert Meyer, a former head of Berlin's Jews who supported Mr Schoeps, accused the Russians of using “Stalinist methods” to influence other Jews and said they had no interest in faith.

Berlin's Jewish community is now troubled, not just by its cultural divide but also by mismanagement and corruption, involving both Russians and Germans, which have tainted its reputation. It has a whopping yearly budget of €25m ($37m), more than 80% of which is paid by the city of Berlin. Most of the running costs of Jewish synagogues, schools, cemeteries, libraries, hospitals and nursing homes are met by the German state as an atonement for the past. “The community has too much money,” comments Mr Schoeps. He believes this encourages misuse of the funds by Jews, both old and new.

“People of the second sort”

Although many German Jews concede that strengthened numbers—of both real and purported Jews—will reinvigorate their previously tiny community, many complain that they no longer feel at home in their community centres and synagogues, where Russian has become the language of choice. The Berlin Jews' monthly magazine is now published in both Russian and German. In spite of the government's offer of free language lessons, many older incomers—and most of them were already over 45 when they arrived—have not bothered to learn more than rudimentary German. “Of course Jews from the former Soviet Union, though highly educated, are people of the ‘second sort’ for the German Jewish establishment,” says Anna Sokhrina, a Russian writer who now lives in Berlin.

What do those “second sorts” think? Nora Gaydukova, a sociologist who left St Petersburg in 1997 with her husband, a doctor, came in the hope of a better life and a western education for her second daughter, who is 14. (Her older daughter, who is 35, stayed in Russia.) During her first years in Germany she felt terribly unhappy; she missed her friends and her job. Her Soviet diplomas were worthless. The German authorities, who offered her lessons in German, English and computer skills on condition that she found a job, discouraged her from retaking the sociology exams.

Reuters

He survived

“Today I am happy in Berlin, which has the only Jewish community that feels somehow real,” says Ms Gaydukova on a rainy winter afternoon at the recently opened centre of the Chabad Lubavitch, a branch of Hasidic Judaism, in the western part of Berlin. She is employed as a social worker by a Russian cultural association, her daughter is at a bilingual (German and Spanish) high school and she has found new friends, though she admits that most of them are foreigners as well. “There is little contact between Russians and Germans,” she notes.

The Lubavitcher community centre attracts many Jews from the former Soviet Union who, like Ms Gaydukova, are keen to learn more about Judaism. On the day before the mid-November election of the head of the Jewish community in Berlin, Gideon Joffe, fighting for re-election after two controversial years in the job, came to address members of the congregation while they shared a meal with their rabbis, who come from Israel and America. He was gently teased for coming only when he is campaigning for votes. He retorted that Berlin has nine synagogues and countless community meetings.

“Real” German Jews, rather than recent immigrants, still monopolise the leadership of Jewish communities everywhere in the country, although they now represent only about 10-15% of the total Jewish population. In the event Lala Süsskind, a 61-year-old woman who came to Berlin from Lower Silesia as a baby, beat Mr Joffe in the contest for the top job by a large margin. She had campaigned for unity of the Jewish community and pleaded with Mr Schoeps, Mr Meyer and other alienated Germans to avoid a split. “Her big challenge now is to integrate the Russians at last,” commented a German Jew who voted for her.

Yet as Sergey Lagodinsky, a former programme director at the Berlin Office of the American Jewish Committee, who migrated with his family to Germany from southern Russia in 1993, says, one cannot integrate 85% of a community. In his view, the definition of Jewishness according to religious criteria is a chief cause of division; because the newcomers tend to be secular, it only alienates them further. In November 2006, when a front-page editorial in the *Frankfurter Allgemeine Zeitung*, a conservative and

highly respected newspaper, said that the biggest challenge for the Jewish community in Germany was to make Russian Jews into authentic Jews, Mr Lagodinsky fired back with a polemic in *Tachles*, a Jewish magazine, entitled “False Jews, real problems”.

The newcomers pose a difficulty for gentiles, too. Although the immigration authorities admit Jews under ethnic guidelines (ie, the father or mother have to be Jewish), most non-Jewish Germans insist on defining Jewishness in purely religious terms. “This is the result of German guilt about the Nazi obsession with race and racial stereotypes,” says Mr Kauders. Most Germans believe that it is wrong to think of a Jew in terms other than adherence to the Jewish religion.

Yet the fact is that times have changed. Germans will have to adapt to having a big, largely secular Jewish community. Established Jews will have to accept that the glory days of sophisticated German Jewry—from Albert Einstein to Kurt Weill—are gone forever. The titles of the two most recent books about Jews in Germany since 1945 (both of which were published last September) suggest that Germany cannot be the long-term home of a forward-looking Jewish community. “L'impossible Retour” (The Impossible Return) was written by Olivier Guez, a Frenchman. “Unmögliche Heimat” (Impossible Homeland) was penned by Mr Kauders, an American. But the authors' conclusions are less stark and more hopeful than their titles. “Something new and different is being created with the Jews from the Soviet Union,” concludes Mr Kauders.

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

The presidency

George Bush's last year

Jan 3rd 2008 | WASHINGTON, DC
From The Economist print edition

Illustration by Kevin Kallaugher

Can the president achieve anything before he leaves the White House?

Get article background

FEW presidents have a pleasant time of it in their last year in office. Their chickens come home to roost. Their political capital dries up. Their advisers start worrying where their next pay cheque will come from. The entire country is fixated on the question of who will replace them.

Woodrow Wilson was humiliated by America's failure to join the League of Nations and then incapacitated by a stroke. Dwight Eisenhower was haunted by Sputnik and his multiplying medical problems. Ronald Reagan and Bill Clinton had to deal with the fallout from Iran-Contra and Monica Lewinsky respectively.

George Bush is likely to have a better year than Wilson (he is remarkably fit for a 61-year-old), but a worse one than most other presidents. Yet 2007 was a surprisingly good year after the debacles of 2006. The “surge” in Iraq proved fairly successful—and vindicated Mr Bush's decision to back his own judgment against the collective wisdom of the Iraq Study Group. The White House also played a successful defensive game against the Democratic-controlled Congress, outmanoeuvring it on everything from Iraq funding to the federal budget to energy bills to wire-tapping. Mr Bush blocked the expansion of a children's health insurance programme of which he disapproved. He is now talking about ending his presidency “in a sprint”.

This is unlikely. Mr Bush has little going for him in 2008. Only one in three Americans thinks that he is doing a good job. Almost all of his closest political advisers have decamped. Congress is determined to get its revenge and block anything that he sends it. And in reality he has much less than a year to play with. Congress leaves for its summer break in August (thereafter it will do little but pass appropriations bills). If the Republican Party chooses a champion in the next couple of months, he will to some extent cede the leadership of his party; if it fails to choose a champion, as many people are now speculating, the country will be agog at the prospect of a party convention at which the nomination is still up for grabs. Mr Bush's last chance to command the national spotlight may come as soon as the state-of-the-union address on January 28th.

And, with his power ebbing, he faces a mountain of problems at home and abroad. The economy is softening. A wave of foreclosures is damping consumer spending and spreading anger. The fires of populism are burning ever more brightly. There are widespread calls for a stimulus package to revive the

economy.

More than most presidents, Mr Bush is also a hostage to foreign events over which he has little control. The current implosion in Pakistan is just one more reminder of the instability of the greater Middle East. If the surge continues to be successful, Mr Bush will have some reason for self-congratulation; if it falters and fails, he will leave office a broken man.

Mr Bush has no choice but to pursue a modest domestic agenda. The man who once mocked his predecessor for playing “small ball” is doing just that. The White House talks about focusing on “kitchen table” issues such as tweaking the health-care system. Mr Bush even recently travelled to Chesapeake Bay to announce federal protection for two species of fish, the striped bass and the red drum.

But there are nevertheless a couple of matters that qualify as a bit more than “small ball”. Mr Bush will do his best to defend the two most important domestic achievements of his first term—the No Child Left Behind Act (which aims to raise standards in schools and which needs to be reauthorised) and his tax cuts (which are due to expire in 2010). He will argue that extending the tax cuts is the best way to revive a slowing economy. He will also dare the Democrats to resist his “stimulus package” and risk being blamed by voters for a recession.

Mr Bush is also determined to push through what is left of his trade agenda, including pacts with Colombia and South Korea. But much of his energy will be spent trying to block China-bashing legislation in Congress. This year is likely to see rising anxiety about the economic and military threat from China, as the publicity surrounding the summer Olympics in Beijing confronts Americans with yet more evidence of China's rise.

Mr Bush's last year will be dominated by foreign policy. This is partly inevitable—he is fighting wars in Iraq and Afghanistan as well as a more general “war on terror”. But it is also a matter of choice. Most presidents decide to escape from their domestic bonds in their final year—particularly if they face a hostile Congress and an unforgiving press corps—and Mr Bush is no exception.

Mr Bush will fly to Israel in the next few days (his first visit there as president) in order to build on the momentum of November's Annapolis summit. He will also visit other places in the region, including the West Bank, Saudi Arabia and Egypt. A month later he will travel to Africa. Mr Bush also has several global summits on his agenda—ranging from a NATO meeting in Romania in April to an Asia-Pacific economic summit in Peru—as well as a visit to the Beijing Olympics in the summer. The White House explains the president's new-found *Wanderlust* by saying that “We want to be well perceived in the world”.

Reagan and Mr Clinton both offset their domestic troubles with big foreign initiatives at the fag end of their presidencies—Reagan by negotiating with Mikhail Gorbachev and Mr Clinton by throwing himself into trying to bring peace to Ireland and the Middle East. Mr Bush is unlikely to be so successful. He is widely unpopular in the Arab world, and the Palestinians are in no fit state to negotiate. As for the White House's wish to be “well perceived in the world”, the less said the better.

But his trip to Africa might prove surprisingly successful—and might highlight one of his unsung achievements. The Bush administration has allocated $15 billion to fighting HIV and AIDS in Africa and $1.2 billion to prevent the spread of malaria. Partly because of this Africa is one of the few parts of the world where America's reputation has remained high during the Bush years.

Africa will be the highlight of an otherwise dismal year. Mr Bush always wanted to be a “transformational” president. Most of his last year will be spent on the back foot—defending his tax cuts and dealing with the consequences of his “transformation” of Iraq. The rest will be small ball.

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

Rudy Giuliani and Michael Bloomberg

A tale of two mayors

Jan 3rd 2008 | WASHINGTON, DC
From The Economist print edition

AP

Room for only one

Far from Iowa, two would-be presidents are biding their time

Get article background

AS THE other candidates battled frostbite and each other in Iowa, two men were conspicuously absent. Rudy Giuliani was planning to be in Florida on January 3rd, the day of Iowa's first-in-the-nation caucuses. Michael Bloomberg, having popped over to Bali before Christmas to address the UN conference on climate change, is about to give another big speech on January 7th in Oklahoma, this time about non-partisan politics.

Neither man had any chance of winning Iowa. Mr Giuliani is too metropolitan for Iowa Republicans, with his divorces, his tolerance of abortion and his easy friendship with gays. Mr Bloomberg is not even on the ballot. Yet both men could shape the presidential race.

Mr Giuliani may be weak in the early-voting states, but he leads national polls of Republican voters, albeit increasingly narrowly. His lead may disappear entirely if early victories lend momentum to a rival. But, for now, he is still the man to beat.

His strategy is a risky one. He is not quite sitting out the first six races, but he hints that they hardly matter. If he does well in Iowa, Wyoming, New Hampshire, Michigan, Nevada or South Carolina, fine. But the first race that counts, his people suggest, will be on January 29th in Florida, where he leads. Brent Seaborn, a strategist for Mr Giuliani, predicts that his boss will win the Sunshine State and come to “Super-Duper Tuesday” (February 5th, when more than 20 states will vote), with more delegates lined up behind him than any other candidate. Mr Giuliani would then rely on his popularity in big coastal states such as New York and California, where voters are less easily shocked by his private life, to propel him to the nomination.

This is optimistic, but not absurd. The Republican field is splintered. If the early primaries produce no clear front-runner, Mr Giuliani's national celebrity could see him through. He is a deft campaigner, admitting to flaws, while sparing audiences details (adultery, dodgy friends, apparent conflicts of interest) that they can look up on the web. He trumpets his two strengths: crime fell sharply while he was mayor of New York, and he kept cool when the city was attacked by terrorists. Often, he conflates these into a single unified theory of toughness in the face of bad guys. The world is dangerous, as Benazir Bhutto's assassination has reminded voters.

But his steel is starting to look tarnished. To compensate for his social liberalism, which repels many

Republican primary voters, he has hammed up his tough-guy act to such an extreme that it could harm him in a general election. Swing voters mostly feel that eight years of bellicosity is plenty. And although his mix of fiscal conservatism and social liberalism appeals to many, even social liberals gag at reports that he billed taxpayers for security expenses incurred during adulterous trysts. The recent indictment on corruption charges of Bernard Kerik, whom he appointed as New York's police chief, is not helping either.

If Mr Giuliani fizzles, Mr Bloomberg is a likely beneficiary. He is a less colourful figure. Whereas Mr Giuliani rescued New York from dysfunction, his successor as mayor has merely continued to run it well. Like Mr Giuliani, Mr Bloomberg is fiscally conservative and socially liberal. But unlike Mr Giuliani, he is a billionaire, so he can fund his own (undeclared and semi-denied) presidential campaign.

Rather than stretching uncomfortably to woo primary-voting activists, Mr Bloomberg can be himself. If he runs, it will be as a moderate third-party candidate. Unlike many Republicans, he favours swift action to curb climate change. Unlike the main Democrats, he admits that a carbon tax, though unpopular, would be the best way to do it. As a third-party candidate, he could offer sensible policies on immigration, gun control, poverty and more.

If Hillary Clinton and Mr Giuliani are the Democratic and Republican nominees, there will scarcely be room for another New Yorker in the race. But if one party picks a base-pleasing populist (say, Mike Huckabee or John Edwards), Mr Bloomberg may see open ground for a pragmatic centrist. Even as he touts the virtues of non-partisanship in Oklahoma, he will be keeping a close eye on Iowa.

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

Chicago's public transport

Off track

Jan 3rd 2008 | CHICAGO
From The Economist print edition

Most commuters are miserable, but Chicago's may be the most beleaguered

AP

It's hell on the El

THE city's average commute is not quite America's longest (that honour goes to New York), but in one respect Chicago is unrivalled: the bitterness and passion of the argument surrounding its public-transport system.

If the Illinois state legislature does not act by January 20th, more than half of bus routes in the city will be eliminated, some 2,400 transport workers will be sacked and fares will be raised. Suburban rail and bus lines face cuts as well. Commuters will be forced to drive on already crowded roads or walk to a distant bus or train—this in the depths of winter, with pavements icy and kerbs surrounded by lakes of frigid slush. As America grapples with traffic, high fuel prices and climate change, public transport is often suggested as an antidote. But, as Chicago proves all too well, innovation in public services can easily be stymied by old-fashioned bickering.

There is hope that Illinois's legislators will be more productive in 2008 than they were last year, but this is not saying much. Last March the state's auditor published a bleak report about greater Chicago's transport network. Over the previous five years operating costs had risen faster than revenues—6.5% each year compared with 2.2%—and pensions for the city's transport workers were only 34% funded as of 2006. Lawmakers spent most of 2007 bickering over how to raise more money, in vain.

Now commuters face severe reductions in service. They were already threatened with two such “doomsdays” last autumn, but each time the governor of Illinois, Rod Blagojevich, used a quick infusion of cash to let the argument drag on. It is unclear whether he will be able to do so again.

Through all this, there has been a ready solution. Julie Hamos, a state representative, proposed a bill that would raise Chicago's property transfer tax and increase the sales tax in the metropolitan region's six counties. Her bill also includes reforms to the pension system and the Regional Transportation Authority, resolving some of the problems that helped create the mess in the first place.

But this sensible bill has been stalled by the usual in-fighting. The governor opposes a sales-tax increase and favours diverting the sales tax on gasoline from the general fund. (Congestion pricing, raising the petrol tax itself or getting the private sector involved are not even part of the debate.) And in the Illinois state legislature, many senators and representatives from rural and suburban districts have refused to help unless they get something in return. Politicians are now fighting over how to expand gambling to pay for capital projects, a brawl that seems likely to drag on for some time.

Ineptitude on this scale comes at a heavy price. Hacking away at the public-transport system, America's second-biggest, will not help Chicago's bid to host the 2016 Olympics. And failing to invest in transport could be costing the region $2 billion a year, argues Chicago Metropolis 2020, a civic group. At a hearing in November, parents described how service cuts would force their children to walk to school through dangerous areas. Others explained how hard it would be to get to work. If Illinois's politicians were trying to demonstrate how not to tackle a serious issue, they could hardly do better.

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

On the campaign trail

Primary colour

Jan 3rd 2008
From The Economist print edition

Silent but deadly
"I'm sorry, I don't talk to the press and that applies to you, unfortunately."

Chelsea Clinton refuses to be interviewed by any journalists, even a nine-year-old reporter for Scholastic News. Associated Press, December 31st

Having your cake and eating it
"I pulled the ad. I do not want it to be run at all."

Mike Huckabee, deciding not to run a negative ad against Mitt Romney. He then showed it to the media, and it has since appeared on news reports and the internet.

Washingtonpost.com, December 31st

Hedging your bets
"I think I'm going to win. I'm not going to forecast that necessarily. But I think I'm going to win, and that would be enormously powerful for my campaign."

Mitt Romney on his chances in Iowa. CNN.com, December 31st

All I want
"Take me on a vacation."

Cindy McCain suggesting a New Year's resolution for her husband. CNN.com, December 31st

Going postal
"John doesn't have a record in the Senate. John's only passed four bills. They're all about post offices. I mean, literally."

Joe Biden on John Edwards's senatorial career. Washingtonpost.com, December 31st

Officially unofficial
"He will not have a formal official role. But just as presidents rely on wives, husbands, fathers, friends of long years, he will be my close confidant and adviser, as I was with him."

Hillary Clinton on her husband's possible future role. ABC News, December 30th

Geography 101
"In light of what is happening in Pakistan it ought to give us pause as to why are so many illegals coming across these borders."

Mike Huckabee on immigration. Associated Press, December 28th

Delicate flower
"It was a severe headache, yeah, and everything has turned out fine. All the tests turned out 100%. As you can see, I'm very healthy."

Rudy Giuliani was hospitalised in St Louis. Los Angeles Times*, December 23rd*

Animal lover
"Well...these three birds all said they would not vote for me on caucus day. You see what happened?"

Mike Huckabee went pheasant hunting in Iowa, shooting three birds. Washingtonpost.com, December 26th

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

Strip clubs

The Texas pole tax

Jan 3rd 2008 | AUSTIN
From The Economist print edition

A good cause, but a bad policy

THERE is a new price to be paid for looking at naked women in Texas. On January 1st the state's strip clubs began imposing a $5 surcharge for each visitor. The “pole tax,” as it is commonly called, is expected to bring the state an additional $40m in revenue each year. Most of the proceeds will go to programmes that support victims of sexual assault.

Helping rape victims is obviously an excellent idea, and the measure was passed by the Texas legislature easily last year. But it is controversial in some quarters. Club owners, in particular, think they are being shaken down and vilified despite providing a perfectly legal service, and are already sounding a little defensive. Commercials for The Lodge, in Dallas, boast that its customers enjoy “women, manly steaks, cigars, and women.” In light of the new tax a co-owner has noted, rather less laddishly, that the club also raises money for charity via car washes. Smaller clubs are worried that their patrons cannot or will not pony up five measly dollars, a prediction that may prove true but is certainly rather depressing.

Another gripe is that the tax implies an unfair link between club patronage and sexual violence, though no evidence to support this has been presented. State representative Ellen Cohen, who sponsored the legislation, argued that connecting the two is fair because both strip clubs and sex crimes objectify women. And apparently a majority of Texas legislators were comfortable with that explanation. In 2004, in contrast, Governor Rick Perry proposed taxing strip clubs to pay for public schools. The idea was considered inappropriate and it went nowhere.

Such targeted taxes seem to be in vogue at the moment. Gavin Newsom, the mayor of San Francisco, recently proposed that retailers pay a fee for selling sugar-laden fizzy drinks. The revenue would fund a city initiative to encourage healthy eating and exercise. Last year's proposed expansion of the State Children's Health Insurance Programme would have been funded by increased tobacco taxes (though the connection here also seems rather a stretch, since not that many children smoke; George Bush vetoed it anyway). In Wisconsin, a state legislator wants to raise more money for the juvenile criminal justice system via a tax on video games.

Critics say that all of these measures are punitive. Louche behaviour, after all, is not a crime. But its practitioners have had a hard time making their case. Last month opponents of the pole tax filed for a temporary injunction against it. They argued that nude dancing is a type of expression and that its free exercise should therefore not be inhibited. The judge was unimpressed.

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

Parks

American pastoral

Jan 3rd 2008 | IRVINE
From The Economist print edition

What a new park reveals about attitudes to public space

JUST east of downtown Irvine, in southern California, a bucolic landscape is under construction. Little by little, a former military airport is being dismantled, to be replaced by grass, trees and a canyon 70 feet (21 metres) deep. When it is finished, Orange county's Great Park will cover 1,350 acres (550 hectares), more than one-and-a-half times as much as Central Park in New York. The biggest landscaped municipal park to be built in more than a century, it reveals much about how American attitudes to open space have changed.

Urban parks are back in fashion. In Denver, an 80-acre park opened in September on the site of another disused airport. New York plans to build a huge park on top of the Fresh Kills landfill in Staten Island. Innumerable town squares and pocket parks have been created or beautified, even in gritty places like Detroit. City planners, who once viewed parks as financial drains and nests of crime, now see them as magnets for tourists and creative types.

The great parks that were built in the second half of the 19th century were intended to counteract the ill effects of city living, and so are the new ones. But the perceived ills have changed. Frederick Olmsted, who designed Central Park and many others, wanted to provide people with a respite from their tough, dirty jobs. Ken Smith, the Great Park's architect, reckons the residents of Orange county are quite idle enough. What they need is exercise: hence the park's proposed 21 football fields and 12 baseball fields, together with some exhausting-looking walks.

Another difference is that parks are now expected to function like natural ecosystems as well as looking like them. The Great Park will use recycled water in its lake (older parks often used mains water). The runways will be pulverised and turned into roads and a memorial. In a nod to the local-food movement, the park will include land for farming and composting. Even the car park will be situated in an orange grove.

Most striking of all is the new parks' deference to history. America's great 19th-century landscape architects saw the land as a blank slate. An entire village was razed to build Central Park. By contrast, Denver's park preserves a control tower, and the Great Park will convert a hangar into a museum and retain the outline of a runway. A river diverted underground by the marines will be restored to its former course. The preservation lobby is stronger these days. And besides, says Yehudi Gaffen, a partner in the Great Park project, “Southern California has so little history that we should try to keep some of it.”

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

Lexington

The 40-year itch

Jan 3rd 2008
From The Economist print edition

Illustration by Kevin Kallaugher

Can America ever escape from the shadow of 1968?

AMERICA is greeting the New Year with a spasm of nostalgia for an old one. Tom Brokaw's new book, “Boom!”, is a virtual reunion of the class of '68 (the high point is a photograph of the young Dick Cheney astride a motorbike and wearing shades). *Newsweek* has dubbed 1968 “the year that changed everything”. On December 30th the *Washington Post* quoted David Maraniss, one of the best chroniclers of the 1960s, waxing lyrical about '68: “there was a mood that anything was possible, good or bad, that life was changing by the week...it was kind of dizzying and exhilarating and tragic.”

For once the baby-boomers can be forgiven their nostalgia. 1968 was indeed one of the most significant years in American history. Martin Luther King and Robert Kennedy were assassinated within two months of each other. The Tet offensive turned public opinion against the Vietnam war. Cities burned and students revolted. The Democratic convention in Chicago collapsed in riots and confusion.

1968 was the anvil that shaped the political legacy of the sixties. The Democratic Party marginalised itself by shifting decisively to the left on everything from the war to sexual politics. The Republican Party hit on its great winning formula—presenting itself as the champion of the “silent majority” against long-haired lefties and revolting students. The year ended with almost 60% of Americans voting for either Richard Nixon or George Wallace, a Southern segregationist.

The Republicans and Democrats have replayed these themes ever since. The Republicans have caricatured the Democrats as Harvard Yard hippies. Hence all those congressional votes on flag-burning and other dire threats. The Democrats have accused the Republicans of repeating the mistakes of Vietnam in Iraq. One reason why conservatives hate Bill Clinton so much is that they think he embodies the narcissism and self-indulgence of the 1960s. (The man even named his daughter after a Joni Mitchell song.) One reason why liberals hate George Bush so much is that they think he and his frat-boy kind should have been swept aside by the youth-quake of 1968.

They are replaying those themes still in the current election. John McCain, who spent the late 1960s as a prisoner of war in Vietnam, has chided Hillary Clinton for earmarking $1m for a Woodstock concert museum (“I wasn't there...I was tied up at the time”). John Edwards often seems to be channelling the spirit of Robert Kennedy—at least of the RFK who transformed himself after his brother's death from hard-assed cold warrior to liberal hero. Like RFK, he has made ending the war his signature tune; he is focused on ending poverty; and he has spent much of his time campaigning in inner cities and rural backwaters.

But there is also something else going on in this campaign; a longing to escape from the shadow of 1968. Barack Obama makes much of the fact that he is too young to have played a part in the *Kulturkampf* of the 1960s. He has pointedly complained that “Senator Clinton and others, they've been fighting some of the same fights since the sixties, and it makes it very difficult for them to bring the country together to get things done.”

Move on

Can America at last break free of the 1960s? Much obviously depends on which candidates the parties pick. Mrs Clinton is most likely to give the old culture warriors a chance to fight the battles of 1968 again. Mr Obama is the most likely to re-scramble American politics in unpredictable ways. But, even if the Democrats go with Mrs Clinton, there are some reasons for hoping that politics will be more than just a replay of that year.

The first is that the Democratic Party has decisively kicked the habit of self-marginalisation that it acquired in 1968. It has replaced cultural liberalism with a studied cultural conservatism (too much so on the issues of ending the death penalty and of gun control, both of which it now studiously ignores). Mrs Clinton has supported banning flag-burning. Both Mr Edwards and Mr Obama support big increases in the military budget.

The second is that Nixon's strategy of defending the moral majority against the cultural elites is running out of steam. The Republican candidates have had their fair share of divorces. Rudy Giuliani has embraced New York values when it comes to abortion and homosexual unions. The populism that is catching fire this year is old-fashioned economic populism rather than Nixon-style cultural populism—and it is catching fire across both parties. Both Mr Edwards, a Democrat, and Mike Huckabee, a Republican, have powered their campaigns by championing ordinary people against greedy corporations.

The final reason is that, for all the endless comparisons between Vietnam and Iraq, America has changed greatly since 1968. Students are worried about getting good jobs rather than changing the system. The anti-war demonstrations have been insignificant compared with the draft-fuelled marches of the 1960s. The counter-culture has long ago made its peace with capitalism. Some 150m Americans, half the population, have been born since January 1st 1969.

The biggest difference is with race relations. In the wake of King's murder, riots erupted in 125 cities: 46 people were killed, 2,500 injured and 21,000 arrested. Soldiers set up machinegun-turrets on the steps of the Capitol. Black radicals like Stokely Carmichael pledged to “end this non-violence bullshit”. Today America's race relations are utterly transformed. There are still far too many blacks in poverty or in jail. But there is also a thriving black middle class. A conservative Republican president has made a black woman who grew up in the segregated South his secretary of state. Mr Obama is campaigning for president as a post-racial candidate. 1968 was indeed a remarkable year, but it is time for a new template for American politics.

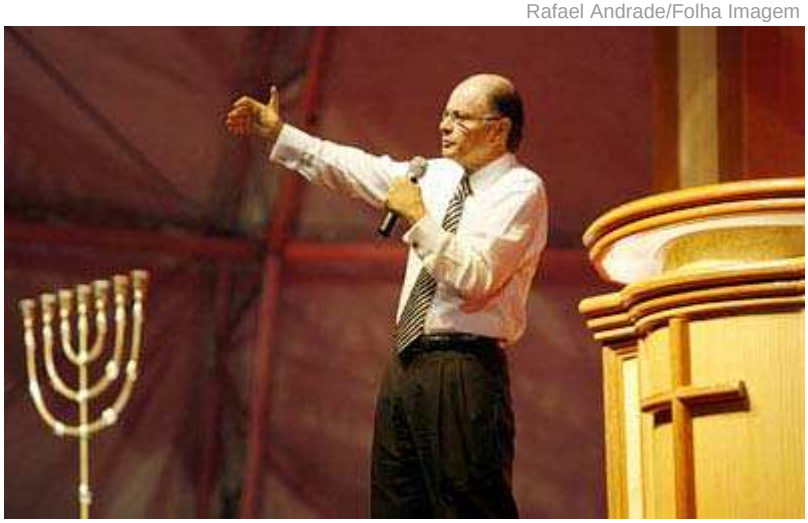
Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

Brazil

If redemption fails, you can still use the free bathroom

Jan 3rd 2008 | SÃO PAULO
From The Economist print edition

Rafael Andrade/Folha Imagem



Edir Macedo (pictured below) and his Universal Church have prospered by offering a religion "of results" to the upwardly mobile

THE Tuesday-lunchtime exorcism at the São Paulo cathedral of the Universal Church of the Kingdom of God is well-attended, as always. On stage a woman in a brown trouser suit is moaning into a microphone, her back to the audience. Her voice flits uncontrollably between gruff low tones and high-pitched squeaks. This is the devil talking. He has been with her ever since the mistress of her philandering husband went to an African cult and put a spell on her. The congregation prays, the priest puts his hands on her and the devil is cast out, leaving its former host exhausted and shivering.

Brazil is fertile land for Pentecostalism, a strain of Christianity characterised by the belief that God performs miraculous works for his faithful so regularly that they can be written into a timetable. The best guess of the World Christian Database, an American statistical service, is that Brazil has 24m Pentecostal Christians, compared with 5.7m in the United States, where modern Pentecostalism began.

The Universal Church is only the third-biggest Pentecostal group in Brazil, but it is the most ambitious. It has branches in 172 countries, but in Brazil it also has its own political party (the Partido Republicano Brasileiro, or PRB) and owns Rede Record, the second-largest television network (which includes a 24-hour news channel).

The man behind this religious conglomerate is Edir Macedo, known by his followers as "the Bishop". One of the world's most successful religious entrepreneurs, he does not give interviews. But two of his journalists have recently published his authorised biography, "The Bishop: the Revelatory Story of Edir Macedo".

Despite the subtitle, the book gives little away. He describes his arrest for charlatanism in 1992 as a blow "like a heart attack", but does not deal with the substance of the allegation (he was released after just 12 days). The book is long on trivia (Mr Macedo confides that his favourite cologne is Acqua di Parma and discusses his large collection of Italian silk ties). But there is nothing on the church's finances.

Mr Macedo was born to a fairly comfortable middle-class family that became less so when his father died. He and his brothers hawked snacks made by their mother round the industrial districts of São Cristovão, in Rio de Janeiro state. Mr Macedo got his first regular job in the Rio state lottery, thanks to a family political connection. He studied at night. His description of his conversion from Catholicism is oddly muted.

From its foundation in 1977, the Universal Church has stressed that the faithful would be rewarded for sacrifices, usually of a financial kind. Followers are asked to give 10% of their income; “the church of results” will then reward them with blessings, in the form of miraculous healing, or success for their families or at work. Church services often revolve around testimonies of such results. “Offerings [to God] are investments,” says Mr Macedo.

Selling prosperity theology to the poor attracts criticism from those who believe that the Universal Church exploits the credulity of the desperate. In his book Mr Macedo defends himself robustly. Those who earn nothing can still come to services and enjoy the large air-conditioned hall and a clean bathroom without paying. They may go away determined to succeed, and might even give up drinking, stop beating their wives and join the church. “Whom have I harmed? That is the question: whom have I harmed?” He attacks the Catholic Church for eulogising poverty.

Mr Macedo's success has brought growing influence in Brazilian public life. He has built Rede Record, bought for $45m in 1990, into a powerful rival to Globo, the country's leading broadcaster. Though the Universal Church provides a captive audience for its religious programming, Record has grown mainly by showing popular American shows and investing in its own *telenovelas* (soaps). It has secured exclusive rights to the Beijing Olympics.

The PRB, founded in 2005, has only four of the 513 seats in the federal Chamber of Deputies. It is driven by pragmatism rather than by ideology (it is not hostile to abortion, for example). Its main purpose appears to be to defend the interests of the Universal Church by deterring attacks from its powerful enemies, which include the Catholic church and Globo.

Preaching in his São Paulo cathedral, Mr Macedo is soothing, his message backed by rising chords played on a synthesiser. He asks the congregation to talk to God, and a couple of thousand private conversations resonate in the hall. Some people start to cry, others hold their arms aloft. Then the Bishop gets on to the subject of offerings. To sacrifice is divine, he tells the congregation. Maybe so, but to devise ingenious business models is human.

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

Argentina, Venezuela and America

Slush and garbage

Jan 3rd 2008 | BUENOS AIRES AND MIAMI
From The Economist print edition

The imbroglio over a cash-stuffed suitcase

EPA

The Kirchners and their wealthy friend

Get article background

WHEN Cristina Fernández replaced her husband, Néstor Kirchner, as Argentina's president on December 10th, she hinted that she would improve her country's strained relations with the United States. But exactly a week later a prosecutor in Miami accused five men of trying to cover up an alleged effort to funnel Venezuelan cash to Ms Fernández's election campaign. The president promptly accused the United States government of mounting “a garbage operation” against her. With the only two of the five so far indicted pleading not guilty on December 27th, the stage seems set for months of revelations—and bad blood.

At the centre of this tangle is Guido Antonini Wilson, a Venezuelan businessman who also has an American passport and who lives in Key Biscayne, a wealthy Miami enclave. Last August Mr Antonini arrived in Buenos Aires from Caracas on a private jet chartered by Argentina's state energy company, clutching a suitcase with $800,000 in cash which he had failed to declare. Customs officials confiscated the cash but let Mr Antonini go. When the story reached the Argentine papers, Mr Kirchner sacked Claudio Uberti, his unofficial envoy to Caracas who was also on the plane, as were officials from PDVSA, Venezuela's state oil company.

Thereafter the five accused—four Venezuelans and a Uruguayan—met Mr Antonini several times in Miami. According to the American Justice Department, they tried through threats and the offer of $2m to persuade him not to reveal that the cash came from the Venezuelan government and, prosecutors claim, was intended for Ms Fernandez's campaign. These conversations were recorded secretly by Mr Antonini, who was co-operating with the FBI, and are alleged to have included several phone calls with officials in Venezuela's secret police. The Justice Department has charged the five with operating illegally as Venezuelan government agents. Of that there is no proof, says Ed Shohat, a defence lawyer. They were merely offering friendly advice to Mr Antonini, he said.

Argentine officials claim that the whole case is a CIA fabrication and a reprisal for the Kirchners' ties to Venezuela's left-wing president, Hugo Chávez. Mr Kirchner demanded that the Americans send Mr Antonini to Argentina to face justice there. But that begs the question as to why the Argentine government allowed him to leave in August, and had shown no subsequent interest in investigating him. Mr Uberti's former secretary told an Argentine judge last month that she saw Mr Antonini at a reception at the presidential palace two days after the cash was discovered.

Mr Kirchner's government forged an alliance of convenience with Mr Chávez. Since 2005 Venezuela has bought $5 billion of Argentine bonds, most of which it has passed on to friendly local banks at a steep discount; it has sold Argentina diesel fuel under special arrangements that include the purchase of Argentine products from providers selected by the governments without competitive tenders.

American officials have long been searching for evidence to back up their claims that Mr Chávez is using Venezuelan oil wealth to fund political allies across Latin America. The case may establish whether they have now found convincing proof of that. It has already shone light on the extravagant lifestyle of a small group of wealthy Venezuelan expatriates in Florida with close business ties to Mr Chávez's government, of which both Mr Antonini and the accused formed part. One of the defendants, Franklin Durán, drives a Ferrari; in partnership with another, he owns a petrochemical firm which has contracts with PDVSA.

After her initial outburst, Ms Fernández herself has kept quiet about the case. But her government has restricted contacts with the American ambassador in Buenos Aires. She is playing to a public that is more anti-American than any other south of the Rio Grande. As Joaquín Morales Solá, a political analyst, puts it, the Argentine predisposition “is to look for a conspiracy, to see captive courts [in the United States] because Argentina has them. It's a mixture of narcissism and naivety.”

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

Colombia

Camera, no action

Jan 3rd 2008 | BOGOTÁ
From The Economist print edition

Another hostage debacle

Get article background

FOR four days, several Venezuelan helicopters and an international reception committee including Néstor Kirchner, Argentina's former president, and Oliver Stone, a Hollywood filmmaker, waited at the airport in Villavicencio, a town in the Colombian lowlands, for the left-wing guerrillas of the FARC to fulfil a promise to release three of the hostages they have held for years. In Caracas, Hugo Chávez, Venezuela's leftist president, to whom the FARC had made the pledge, stood by with the captives' relatives. But this bizarre show ended without a denouement on New Year's Eve, and with Mr Chávez and his entourage embarrassed.

The FARC told him they could not hand over the three hostages—Consuelo González and Clara Rojas, both politicians, and Ms Rojas's three year-old son, Emmanuel, born in captivity—because of nearby operations by the Colombian army designed to sabotage the release.

Álvaro Uribe, Colombia's president, flew to Villavicencio to insist that the army had stood aside. The FARC were lying, he said: its commanders aborted the release when they found out that they no longer held Emmanuel, whose father was a guerrilla. Officials believe that they have located the boy in Bogotá, and say he was handed over for foster care in an isolated jungle town in 2005. They are carrying out DNA tests to confirm this. If these prove the government's contention, the FARC have made a fool of Mr Chávez, as well as themselves.

In all the FARC hold some 750 hostages. They want to swap 45 of them, including Ingrid Betancourt, a politician of dual Colombian and French nationality, and three American defence contractors, for jailed guerrillas. But they have demanded that the government remove troops from two municipalities to allow talks. Mr Uribe, whose unbending policies have improved security in Colombia, refuses to do this.

Pressed both by Colombians and by France's president, Nicolas Sarkozy, to strike a deal, Mr Uribe in August accepted the mediation of Mr Chávez, only to reject it again in November because of the Venezuelan leader's political grandstanding. He may feel vindicated in his mistrust of the guerrillas and of his neighbour. But the fate of the hostages will continue to dog him.

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

Thailand

Counting Thaksin's blessings

Jan 3rd 2008 | BANGKOK
From The Economist print edition

By electing allies of the deposed prime minister, Thaksin Shinawatra, Thais have voted against the 2006 coup. But the country's worries are not over yet

EPA

Get article background

IN STARK contrast to the terrible political violence in Pakistan and Kenya, Thailand's election, on December 23rd, was mostly peaceful. It also, notwithstanding perennial complaints of vote-buying, seemed largely fair. More remarkably, the military chiefs who deposed the government of Thaksin Shinawatra in a coup in 2006 seemed to accept the public's decision to overrule the coup and restore Mr Thaksin's allies to power in the form of the People's Power Party (PPP), a reincarnation of his disbanded Thai Rak Thai (TRT).

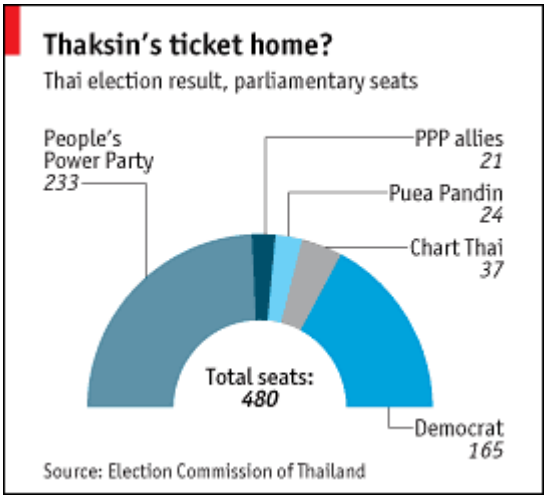
Mr Thaksin, too, has struck a conciliatory note. This week he said he would return from exile soon and invite the coupmakers to a round of golf. “For the sake of the country's reconciliation”, he would meet his nemesis, General Prem Tinsulanonda, the chief adviser to King Bhumibol, and the man widely presumed to be the mastermind behind the coup.

If so, Thailand may emerge from two years of political strife and regain its former status as a beacon of multi-party democracy in Asia. Until recently such an outcome had seemed improbable. In October a memo came to light detailing the junta's plans, through spreading black propaganda and fomenting anti-Thaksin protests, to subvert the election to thwart a PPP victory. However, embarrassed by the plan's discovery, and perhaps disheartened by months of unpopularity, the junta seems to have dropped the plan and let the people decide.

A potential spanner in the works is a decision by the Election Commission, due later this month, on which winning candidates will be disqualified for electoral malpractice. Early in the campaign the commission announced absurdly stringent regulations, raising fears it might apply them partially, to disqualify PPP candidates, or indeed the entire party, on flimsy grounds. The commission later absolved the junta over its plot to subvert the election, arguing that the conspiracy had not been enacted and thus no harm was done. If it is consistent it will judge poll-fraud allegations by the same yardstick, disqualifying elected members only if their rule-breaking may have altered the results. Early this week there were signs of splits in the commission, with one of its members saying he wanted to quit.

It had been widely assumed that the PPP would get the most seats but not enough to prevent its main rival, the Democrat party, from forming a governing coalition. However, the Thaksinites did better than expected, winning 233 seats, only

eight short of a majority in the 480-seat lower house (see chart). This was in spite of a recent change to the electoral system—to merge single-seat constituencies into ones returning up to three members—that seemed designed to encourage Mr Thaksin's supporters to spread their votes around other parties. As the extent of the PPP's victory became clear on election night, Samak Sundaravej, Mr Thaksin's stand-in as party leader, insisted he would be prime minister. By the middle of this week it seemed as if the PPP had persuaded most or all of the five minor parties that won seats to join its coalition. This would give it a big enough majority to withstand all but an extravagant number of disqualifications.



Mr Thaksin took full advantage of his crushing majority in the last parliament, pushing his cronies into key institutional jobs while scorning his critics. His allies' new government may not have it so easy. For one thing, the Democrats emerged stronger from the election, gaining 165 seats, up from 96 in the 2005 election (when the lower house had 500 seats), so they should provide more effective opposition. Furthermore, a new constitution narrowly approved in a referendum in August strengthens the checks and balances against an over-mighty executive. This includes a dubious change in which some Senate members will be appointed by judges and officials (the rest will be elected, probably in March).

Ideally the PPP-led government would offer the advantages of the previous TRT ones—sound macroeconomic management and policies to aid poor rural villagers—without the disadvantages, such as Mr Thaksin's autocratic tendencies and conflicts of interest. To boost flagging economic growth and weak investment, confidence in the stability and competence of government needs to be restored swiftly.

Samak the knife

However, Thailand's political strife may not yet be over. Mr Samak, abrasive and uncouth, may prove an even more divisive prime minister than Mr Thaksin. Mr Samak is a staunch royalist but he is also a foe of General Prem, so it cannot be guaranteed that the generals and the Thaksinites will kiss and make up, especially since Mr Samak wants to lift Mr Thaksin's five-year ban from politics, and halt the corruption inquiries the coupmakers instigated against him. Mr Thaksin insists he has retired from politics but not everyone believes he will keep his word. If he or close relatives take top jobs in the new administration, and especially if he uses his restored power to seek revenge on the coupmakers, he risks renewed street protests and a reaction from the army's hardliners.

In the absence of such a disaster, history may look kindly on the perpetrators of Thailand's 18th coup since the end of absolute monarchy in 1932. They spilled no blood and kept their promise to restore democracy promptly. But they and their supporters would have been more nefarious had Thai public opinion not stopped them: they tried to insert a clause in the new constitution granting themselves sweeping powers in the event of a political conflict, and then tried to achieve the same by means of an ordinary law, which the military-appointed interim assembly watered down before passing last month.

The generals signally failed to prove the claims of “rampant corruption” and other misdeeds by Mr Thaksin used to justify the coup. Worse, they did nothing to correct the most heinous abuses of his administration: extrajudicial killings by police during a 2003 “war on drugs” and two massacres in 2004 of Muslim protesters by security forces in Thailand's troubled south. The junta and those among the fickle Bangkok elite who excused the coup should have learned their lesson that extra-constitutional excursions do not solve problems. That, however, may be too much to hope.

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

Hong Kong

Democracy denied

Jan 3rd 2008 | HONG KONG
From The Economist print edition

Beijing blocks open elections in Hong Kong until at least 2017

Get article background

TO DIM the impact of what it had to know would be unpopular news, China's government waited until the Saturday evening of the New Year's weekend to reveal its long-awaited reaction to Hong Kong's petition for a democratic government. The answer came in two forms. There was a long, muddled, pledge that appeared to honour the request by setting a timetable for a direct popular election for the territory's "chief executive". And there was a tough underlying message: no such election until two more five-year chief-executive terms have been completed, ie, until 2017, if then; and all candidates will have to be approved by the central government. Democracy, in short, only in name. Similarly, it will not be until 2020, at the earliest, that Hong Kong's citizens will have the right to elect directly all the members of the city's legislature.

The decision follows a lengthy study by the Hong Kong government and, no doubt, lengthy consideration in Beijing. Local opinion polls show huge support among Hong Kong citizens for democracy. A recent by-election for one of the directly elected seats in the legislature resulted in a symbolically important victory for a pro-democracy candidate, Anson Chan, the territory's most senior civil servant during the handover from British rule a decade ago. But the Chinese government and its supporters have recently taken an increasingly chauvinistic line. Pro-mainland papers hammered Mrs Chan. A mild opinion piece by a long-time democracy advocate, Martin Lee, in the *Wall Street Journal*, urging countries to push for human rights during the Beijing Olympics later this year, led to his being pilloried in terms reminiscent of the Cultural Revolution: "Traitor Lee!"; "Running dog!"

In protest at China's electoral timetable, there was a lightly attended bicycle rally on January 1st. A bigger rally is planned for January 13th. But it is unlikely that the turnout will match the hundreds of thousands who protested in 2003 against proposed restrictions on civil liberties. At the time, SARS, a respiratory disease, was raging, the economy was in a funk and discontent widespread. Now, times are good. Restaurants are packed and unemployment low. The present chief executive, Donald Tsang, was installed by China in 2005 and so bears the burden of being a puppet. But he is respected as a capable administrator and would have won re-election in a popular election in 2007 if one had been held. To some extent, mollifying China is considered part of the job.

Now Mr Tsang will have to come up with an electoral plan for the coming years that will placate public impatience but not alarm China. This may not be possible. So he has given warning that heated argument might jeopardise Hong Kong's "stability and development". This threat is not taken lightly. The city prides itself on functioning efficiently in an often chaotic continent. Of course, the best way to ensure continued stability would be to let the people of Hong Kong run their own city. But Beijing is loth to let democracy take root in this "Special Administrative Region" lest it sets a precedent elsewhere in China.

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

Nuclear North Korea

Eerie silence

Jan 3rd 2008 | SEOUL AND TOKYO
From The Economist print edition

Golly: the Dear Leader won't come clean about his bombs

Get article background

ANOTHER deadline, another disappointment. Last February North Korea agreed with four of its neighbours and the United States to give up its ambitions as a nuclear power in return for lashings of aid and rehabilitation from its standing as an international pariah. Crucial to the deal was North Korea's subsequent promise to declare all its nuclear activities by December 31st. The deadline came. It went. From Pyongyang, not a squeak.

Though hardly out of keeping for such a secretive, recalcitrant regime, the silence has generated unease, even embarrassment, among North Korea's counterparts in the six-party talks hosted by China, which, typically, described the hold-up as “natural”. But the administration of President George Bush reversed a once hostile policy in the past year in an attempt to prove that engagement with North Korea, even after it let off a nuclear bomb, could work. America's patience will have limits.

For now it will not sound the alarm. After all, an earlier part of the deal, the closure of the Soviet-era nuclear reactor at Yongbyon in July, came three months later than promised. Since then American inspectors have moved into Yongbyon to see that it is disabled and eventually dismantled. December 31st was also meant to be the deadline for Yongbyon's disablement, which was missed as well. But this week America was at pains to stress North Korean technical co-operation. If anything, it said, the delay was because of its own insistence that due care be taken in removing the thousands of fuel rods from the ageing reactor.

A few weeks' delay in the declaration of North Korea's nuclear programmes would be tolerable. Any longer and the six-party process would be in trouble. For the nuclear programmes are the crux of the matter. Declaring them was never going to come easily to Kim Jong Il, North Korea's “Dear Leader”. His nuclear weapons, however few and feeble, provide his only leverage against the world. Yet America is unlikely to stand for any bluff—not least because of suspicions that a Syrian site bombed by Israel in September was a nuclear facility that had North Korean help.

The questions now are not only how much plutonium North Korea has extracted and how many warheads it has made. The Bush administration also wants to know the scale of the programme to enrich uranium to which North Korea admitted in 2002. Earlier claims by America about its scale seem exaggerated; still, it has evidence that Pakistan's nuclear racketeer, Abdul Qadeer Khan (see article), sold the North uranium-enriching gear.

Hitherto, those in the six-party talks have given North Korea the benefit of the doubt: only Japan has been openly sceptical about the North's sincerity—at least until it has come clean about the Japanese kidnapped by the regime in the 1970s and 1980s. Now Mr Kim may face a hardening of the ranks. However badly Mr Bush needs a foreign-policy success, he will not move towards normalising relations with North Korea before nuclear progress. As for South Korea, President Roh Moo-hyun has until now seen no evil; yet even his foreign minister now admits that dealing with a nuclear North Korea is a Sisyphean task. What is more, Mr Roh steps down next month and his conservative successor, Lee Myung-bak, is no fan of “sunshine diplomacy”. He promotes a harder line to the North: aid and investment from Seoul should follow nuclear disablement.

Mr Kim may yet come clean on his programmes, and denuclearisation continue apace. If he doesn't, it is not obvious what the world can do about it.

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

Taiwan

Vote, vote and vote again

Jan 3rd 2008 | TAIPEI
From The Economist print edition

Government and opposition limber up for March's presidential poll

Get article background

WITH the new year, election season has arrived in Taiwan. Parliamentary and presidential elections loom in the next three months. As always, the government in Beijing will be watching keenly. The first contest, on January 12th, is for Taiwan's legislature. The opposition Nationalist Party, the Kuomintang (KMT), which favours better relations with the mainland, is expected to retain its majority.

The KMT hopes a decisive victory will give it momentum for the big prize, the presidency, to be decided on March 22nd. Ousted in 2000 after five decades in power, the KMT is desperate to win it back. Its hopes were raised on December 28th when a court rejected an appeal against the acquittal on corruption charges of Ma Ying-jeou, the party's former chairman. This cleared him to contest the presidency.

The ruling Democratic Progressive Party (DPP), on the other hand, is planning to use its expected defeat to argue against a concentration of power in KMT hands. Its presidential candidate, Frank Hsieh, will remind voters of the authoritarianism that marked KMT rule in the 20th century.

Turnout may be no more than 60%, low by Taiwan's standards. Years of political mudslinging between the big parties have brought disillusionment and apathy. And unfamiliarity with a new electoral system may also deter voters. Taiwan has adopted a “single-seat, dual vote” system similar to those used in Japan and Germany. Voters will choose one direct representative per constituency and a preferred party to provide “at-large” members of parliament. There are 113 seats, of which 73 are directly elected, 34 at-large and six reserved for aboriginal candidates. The KMT is expected to win 60-65 seats, the DPP 35-45.

In 2005 the constitution was amended to halve the size of the legislature. The idea was to make it less chaotic and prone to fisticuffs. But the new rules are likely to result in a body stacked with local powerbrokers who care little about national policy. Intending to break the two-party dominance of Taiwan's rough-and-tumble political system, Lee Teng-hui, a former president, has urged voters to opt for minority parties. He even hopes the emergence of a third force in local politics could produce another presidential candidate.

AFP

Read her nails: Ma Ying-jeou is innocent

The legislative-election campaign has been dominated by two issues. One is the DPP's drive to expunge from Taiwan symbols of Chiang Kai-shek, the KMT leader, who led its retreat from mainland China in 1949. This week, the Chiang Kai-shek memorial hall in Taipei reopened as a “democracy memorial”, highlighting the human-rights abuses of his regime.

Second is a procedural dispute over two referendums to be held with the election. One, initiated by the DPP, relates to the KMT's “stolen assets”. The other, introduced by the KMT, which this week nevertheless called a boycott of both referendums, covers alleged corruption by the DPP and President Chen Shui-bian.

More important for the DPP than the issues themselves is the chance to settle procedures for yet another referendum, to be held at the same time as the presidential election. It will ask whether Taiwan should apply for membership of the United Nations using the name “Taiwan” rather than its antiquated formal title, “the Republic of China”. This appeals to the DPP's core supporters, who see themselves as Taiwanese, not Chinese. So it is a device both to win votes and raise turnout. But it alarms China, which sees it as a step towards a formal declaration of Taiwan's independence—an event China has said could provoke an invasion. So China, as usual, will be rooting for the KMT. In Taiwan, that is not an advantage.

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

Gujarat

A la Modi

Jan 3rd 2008 | DELHI
From The Economist print edition

The chief minister wins again

Get article background

THE teetotal state of Gujarat, in the west of India, has once again revealed a taste for a strong political brew. On December 23rd a vote count showed that the state's chief minister, Narendra Modi, romped home to another big victory in elections to the state assembly held earlier that month. Mr Modi, a member of the Hindu-nationalist Bharatiya Janata Party (BJP), was already the most controversial figure in Indian politics. He may now become one of the most influential.

Once the size of Mr Modi's win was confirmed—the BJP carried 117 out of 182 seats—it became hard to remember why anyone thought he might lose. But the Congress party had raised its hopes, if not its game, in this campaign. Sonia Gandhi, the party's leader, crossed swords with him. The leaders of two powerful Gujarati castes, the Patels and the Kolis, had fallen out with him (at least until he won). And some of the party's foot-soldiers also resented a leader who owes more to a personality cult than to them. As Mr Modi's supporters donned smiling “Modi” masks, some of the rank-and-file grumbled that no one was bigger than the party.

Mr Modi had won the previous election, in 2002, in special circumstances, just ten months after 58 rail passengers, many of them Hindu activists, died in a blaze blamed on a Muslim mob. The anti-Muslim sentiment unleashed by that incident—up to 2,000 people were killed in the pogrom that followed—helped sweep Mr Modi to victory.

Since then, the state's Muslims have “learned to live with downcast eyes”, as a report by one local lobby group puts it. But the rest of the state has its head up and its chest out. Always prosperous and enterprising, Gujarat is now booming. Its voters clearly credit some of this prosperity to Mr Modi's administration, which is notably less venal and ineffectual than those Indians in most other states have to endure.

India's nightmare is that the millions left behind by its new prosperity might lash out, turning to Maoist violence. But equally sinister is the prospect of its aspirant classes casting their lot with a business-friendly strongman who promises to make the proverbial trains run on time and to keep disaffected minorities in check.

The BJP is short of “tall” leaders. L.K. Advani, its candidate for prime minister, is 80. The party's president, Rajnath Singh, has made little impression: no one is wearing masks made in his likeness. Mr Modi, on the other hand, has attracted intelligent and ambitious strategists, such as Arun Jaitley, who would not waste their talents on him if they thought him no more than a provincial demagogue.

But his campaign, so successful within the state, may have done some damage to his larger ambitions. His frequent appeals to Gujarati chauvinism jar outside the state, and he struggled to maintain decorum when provoked. After Mrs Gandhi's reference to “merchants of death” was taken as an allusion to his alleged connivance in the 2002 pogrom, his defiant response appeared to justify a notorious 2005 murder by policemen in his state. The exchange earned both leaders a reprimand from India's Election Commission. This populism may win votes. But the BJP must also remain acceptable to a coalition of parties if it is once again to head a national government. Mr Advani has had to soften his image to lead his party. If Mr Modi is ever to succeed him, he too will need to try on a different mask.

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

Sri Lanka

Truce and fiction

Jan 3rd 2008 | COLOMBO
From The Economist print edition

The government and the Tigers stop pretending they have a ceasefire

Get article background

THE six-year-old ceasefire agreement between the Sri Lankan government and the Liberation Tigers of Tamil Eelam had long been in tatters, as the two sides had already resumed their 25-year-old war. On January 2nd it was consigned to the dustbin. The government blamed a bomb attack on an army bus in Colombo on the Tigers, and said it would abrogate the truce, which had "ceased to have any meaning".

In Oslo, Erik Solheim, the Norwegian government minister who negotiated the agreement, was naturally downcast. Civilians, he said, would suffer most, as the Norwegian-led ceasefire monitors would have to withdraw, leaving them even less protected.

The government accused the Tigers of using the truce only to arm and recruit, and to carry out attacks against government forces and civilians, rather than to seek a peaceful solution to the conflict between the Sinhalese majority and the Tamil minority over political autonomy. Successive Sri Lankan governments have alleged that the Norwegian peace brokers had drafted the truce hastily and rammed it down the government's throat.

Both sides kept accusing each other of reneging on it. The government charged that the Tigers had violated the truce more than 10,000 times since February 2002, carrying out high-profile assassinations, terror attacks and abductions of children. But it had itself been waging a no-holds-barred military campaign, liberally using aircraft and artillery, in which thousands were killed and over 300,000, mostly minority Tamils and Muslims, were displaced.

The Tigers' reclusive and ruthless leader, Velupillai Prabhakaran, late last year vowed to continue the armed struggle for an independent "Eelam" (homeland) in the island's north and east. The group did not react at once to Colombo's unilateral abrogation.

Mr Solheim feared the end of the truce will bring "a further escalation of violence". As it is, some 5,000 people have died in the past two years of "ceasefire". But he had not lost all hope. Negotiations would resume sooner or later. "Unfortunately," he said, "many people will die in the meantime."

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

Kenya's elections

Twilight robbery, daylight murder

Jan 3rd 2008 | NAIROBI
From The Economist print edition

EPA

After a stolen election, ethnic cleansing and even the threat of civil war

Get article background

THE decision to return Kenya's 76-year-old incumbent president, Mwai Kibaki, to office was not made by the Kenyan people but by a small group of hardline leaders from Mr Kibaki's Kikuyu tribe. They made up their minds before the result was announced, perhaps even before the opposition candidate, Raila Odinga, had opened up a lead in early returns from the December 27th election. It was a civil coup.

The planning was meticulous. All that was needed were the extra votes to squeak past Mr Odinga in what had been among the most closely contested elections Africa had ever seen. That was why returns from Central Province, Mr Kibaki's fiercely loyal Kikuyu heartland, were inexplicably held back. It was why, in some constituencies, a large number of voters seemed mysteriously to vote only in the presidential race and ignore the parliamentary ballot—despite waiting hours in the blazing sun. But the real damage was done in Nairobi, by simply crossing out the number of votes as announced in the constituency and scribbling in a higher number. Election monitors were turned away while the tallying went on. Monitors from the European Union saw tens of thousands of votes pinched in this way.

Mr Odinga's supporters were not innocent either. There were irregularities in his home province of Nyanza. Still, it was the meddling in Central Province that was decisive. Officially, Mr Kibaki won 4.58m votes to Mr Odinga's 4.35m. A third candidate, Kalonzo Musyoka, won 880,000 votes. Unofficially, Mr Odinga may have won, albeit by a similarly narrow margin.

The tragedy for Kenya, and what threatens to rip the nation apart, is that no one will know for sure. The EU's preliminary report on the election was scathing. Although the parliamentary election had gone off well, the European observers said the presidential one had fallen short of “international standards”.

The role of the electoral commission was particularly dodgy. On the afternoon of December 30th its head, Samuel Kivuitu, declared Mr Kibaki president. The news went out only on KBC, the state broadcaster. Other camera crews were led out of the building. The security forces sealed off the city centre against the angry poor, most of whom had voted for Mr Odinga. A few minutes later, in the twilight, Mr Kibaki was sworn in as president at the State House. In contrast to Mr Kibaki's first term, when the inauguration took place in a stadium heaving with jubilant supporters, there were no dignitaries or diplomats, just a few dozen loyalists and civil servants. Some questioned whether in fact the whole event had been staged earlier and pre-recorded.

The reaction to the swearing-in was immediate. Nairobi's slums exploded in rage. The poor killed each other. Across the country came a swelling up of tribal violence, sometimes Kikuyu against Mr Odinga's Luo tribe, more often Luo and other tribes against Kikuyu. Hundreds have been killed so far and 80,000 displaced. Gang rapes and mutilations are widespread. Police have orders to shoot to kill. There has been looting in Kisumu, riots in Mombasa and pitched battles in Eldoret (see map). Kikuyu hiding in a church near Eldoret were burned alive by a mob.

Taken together, this amounts to a pulling apart of Kenya's rich national fabric. Some 97% of Kikuyu voted for Mr Kibaki. Everywhere else he was trounced. Muslims, for instance, voted against Mr Kibaki by 70% or more. The Kikuyu highlands encircling the glaciers of Mount Kenya increasingly feel like a state within a state. The division is even more troubling when the parliamentary vote is taken into account. Mr Kibaki lost half his cabinet, including his vice-president, as well as a large number of seemingly unassailable members of parliament. This government may find it impossible to pass a budget.

The hardliners' instincts will be to use the security services to reverse the freedoms of Mr Kibaki's first term—anything to avoid power slipping into Mr Odinga's hands. But Kenyans may not stand for this. The government pressured the country's mobile-phone operators to suspend text messages for “security reasons”, without success. The army's strong apolitical tradition, with staff officers drawn from several tribes, looks to be holding.

Mr Odinga is demanding Mr Kibaki's resignation. He is calling for a campaign of civil action, peaceable, but determined. On January 3rd thousands of opposition supporters tried to converge on the centre of Nairobi for a protest rally but were dispersed by the police. Later the same day Mr Kibaki said, for the first time, that he was willing to talk to the opposition “once the nation is calm”.

The expectations of the Luo and other tribes who consider themselves marginalised will have to be addressed, and soon. With 38m people, half of them under 20, Kenya's economy has to create several hundred thousand jobs this year just to stand still. But investment will be hit by the violence, as will vital tourism revenues.

The EU had at first been reluctant to send observers, arguing that resources for Africa were slim and Kenya was “too stable”. During the orderly voting, the mission did indeed look like an extravagance. A week later the country was teetering on the brink of civil war. A chastened Mr Kivuitu now says he is not sure Mr Kibaki won the election. The Americans and the British have been twisting arms, as has the African Union's head, John Kufuor. Well-connected Kikuyu business leaders are trying to persuade Mr Kibaki to give in and form a government of national unity. In the meantime, Kenya burns.

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com WORLD MIDDLE EAST & AFRICA

Nigeria

The good, the bad and the president

Jan 3rd 2008 | ABUJA
From The Economist print edition

A doughty fighter of corruption is sent away for re-education

Get article background

NIGERIANS are painfully aware of how much corruption has cost their country—over $400 billion, according to official estimates. That is the equivalent of about two-thirds of all the aid given to the whole of Africa since the 1960s, and more than anything else explains why most people in this oil-rich country still live in poverty.

Yet in recent years the government had started a belated fight against corruption. And if one man has become the symbol of that campaign it is the crusading young head of the Economic and Financial Crimes Commission (EFCC), Nuhu Ribadu. Since 2003, Mr Ribadu has attained almost mythic status among his countrymen by charging and prosecuting the politicians, and particularly the state governors, who are responsible for most of the fraud and looting of public funds. For the first time, he gave Nigerians hope that their country could actually be different. So the news on December 27th that Mr Ribadu is being forced to resign on a technicality has caused deep dismay among his supporters. It is also very worrying for the future of Africa's most populous country.

In short, Mr Ribadu finally got too close to the top. His anti-corruption agency, once accused of prosecuting only the government's political foes, has under the new president, Umaru Yar'Adua, been pursuing the former state governors who lost their immunity from prosecution after leaving office last May. He had some big successes. The EFCC has arrested seven governors, including two of the most notorious, Ayo Fayose of Ekiti State and James Ibori of Delta State, both of whom spent Christmas in prison. Another round of arrests was planned for early January.

The prosecution of Mr Ibori was the boldest. The former governor of the oil-rich Delta State received a salary of less than $25,000 a year. Last August a court in London ordered a freeze on $35m of his worldwide assets. Despite this, he was thought to be untouchable in Nigeria because of his political connections. He is a prominent leader of the ruling People's Democratic Party and was a major funder of Mr Yar'Adua's election campaign. So when Mr Ibori was arrested on December 12th many Nigerians gasped—and then cheered. Among other charges against him was an attempted $15m bribe of the EFCC to drop the case against him. “He didn't realise that it was being recorded,” said a commission official.

It was also the arrest of Mr Ibori, however, that tipped the scales against Mr Ribadu. Two weeks later came the announcement that Mr Ribadu would have to resign to attend a one-year course of study at the National Institute of Policy and Strategic Studies in Jos. Technically, a man of Mr Ribadu's senior rank has to have done this as part of his qualifications; the head of the police said that the “transfer” was only to make Mr Ribadu “a better officer”. In fact, Mr Ribadu could probably teach the course himself; the former president, Olusegun Obasanjo, did not insist on it. In any case, few are in any doubt as to the real reason for Mr Ribadu's sudden obligation to go back to school. Nervous former state governors pressured—and blackmailed—Mr Yar'Adua into letting the police chief sack Mr Ribadu to spare them any more prosecutions.

For, right now, Mr Yar'Adua needs all the political support he can get. The president is soon to face a legal challenge to his own election in a tribunal. He cannot afford to lose friends—and the ex-governors are among the strongest in his People's Democratic Party. They also have the president's ear because several of them, not least Mr Ibori, could probably produce damning evidence of the widespread election rigging that brought the president to office.

Yet sidelining the head of the EFCC in this way is terrible news for Nigeria. The commission is popular—the second most trusted institution in the country, according to a 2007 poll. The agency's more than 200 convictions over four years have resurrected international confidence in the country. With a soaring stockmarket, investors have poured into Nigeria in the hope that the country was at last getting on top of

its problems, such as corruption. Now some of that progress is at risk.

For Mr Ribadu, there may still be a way out. He could resign. Or he could refuse to go until the orders come directly from the president. That would leave room for Mr Yar'Adua to back down, and save himself as well. But if Mr Ribadu is forced out, as Chris Albin-Lackey of Human Rights Watch, a lobby group, puts it, “the message is unmistakable. The credibility of the EFCC and the president, someone who is genuinely interested in fighting corruption, will be destroyed.”

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

America and the Middle East

Yo, anyone who fears Iran

Jan 3rd 2008 | CAIRO AND JERUSALEM
From The Economist print edition

AP

George Bush is heading off for a tour of the Middle East. He will not be greeted as a conquering hero

THE smart people are getting out of Jerusalem next week. Traffic mayhem is assured as George Bush and his entourage, about 800 souls, guarded by thousands of Israeli police, are whisked about in a fleet of armoured vehicles, complete with a bespoke helicopter brought in to fly the president to Capernaum, in northern Israel, where Jesus chose his apostles.

What is less clear is what Mr Bush will bring his hosts apart from gridlock. The man who hoped his invasion of Iraq in 2003 was going to bring peace to Palestine and democracy to the Arabs has not exactly over-achieved. So the main aims of the tour he begins on January 8th are more limited: to give a nudge to the Israeli-Palestinian peace talks he launched in Annapolis in November (see picture) and to shore up America's allies against Iran.

At the Annapolis summit, Israel's prime minister, Ehud Olmert, and the Palestinian president, Mahmoud Abbas, promised to talk fearlessly to one another about “final status” issues such as borders, Jerusalem and refugees. But these talks have already been soured by familiar complaints. While expressing gratitude for a big boost in foreign aid inspired by Annapolis and co-ordinated by Tony Blair, Mr Abbas will no doubt tell Mr Bush that Israel's recent announcement of new tenders for housing in West Bank settlements jeopardises the fledgling talks.

Mr Bush may listen sympathetically, but is unlikely to apply strong public pressure to Mr Olmert. One reason for that is that America and Israel may be rather more focused on what to do about Iran. Efforts to impose further economic sanctions on the Islamic Republic have begun to falter since an American National Intelligence Estimate declared in December that Iran probably ceased secret work on nuclear weapons in 2003. Mr Olmert needs to know whether this finding has neutralised Mr Bush's threat of military action against Iran, and how America would react if Israel were to launch an air strike on its own. “Whatever Mr Bush tells him will be the basis for some very tough decisions in the Israeli security cabinet,” says Yaacov Amidror, a former head of the Israeli army's research division.

The American president may also be called upon to help repair relations between Israel and Egypt. Israel has lately accused Egypt of allowing the Islamists of Hamas to smuggle guns and fighters unhindered into the Gaza Strip, from where the Palestinians routinely fire rockets into Israeli towns. Egypt, furious, accuses Israel of sabotaging its relations with America.

America's Congress recently cut $100m of the $1.3 billion in annual military aid for America's biggest Arab ally. That came atop other slights that have strained Egyptian-American ties, such as Mr Bush's occasional—and nowadays increasingly infrequent—criticism of Egypt's appalling record on democratisation and human rights. Hosni Mubarak, Egypt's president of the past 26 years, has been

annoyed enough to break, during Mr Bush's second term, from his habit of paying yearly visits to the United States. It will not be easy for Mr Bush to mend relations with Egypt at the same time as passing on Mr Olmert's complaints about Gaza.

Mr Bush can expect a warmer reception in the Gulf, where he is to visit Kuwait, Bahrain, Saudi Arabia and the United Arab Emirates. With the exception of Kuwait, the Gulf monarchies have strongly disagreed with Mr Bush's Iraq policies but share his anxieties about the role of Iran. Last year Mr Bush promised big new arms transfers to these countries. And their misgivings about him may lately have been tempered a little by Annapolis and the apparent success of his “surge” of American troops in Iraq in restoring some calm there.

For his part, Mr Bush will want to reassure himself that the Gulf Arabs are not beginning to wobble on Iran. In December these staunch American friends invited Iran's president, Mahmoud Ahmadinejad, to address their annual summit in Manama, and Saudi Arabia hosted him during the *haj* pilgrimage to Mecca. Mr Bush will be keen to make sure that his allies are not straying too far towards appeasement of the Shia power across the Gulf. His Arab friends, for their part, will try to convince Mr Bush that they believe Iran can be better managed by persuasion than by threat, or at least that incentives should be part of the diplomatic mix. They have reasons to worry. Bahrain, the home port for America's Fifth Fleet, has lately experienced unrest among its politically marginalised Shia majority.

They'll always have Petraeus

A “surprise” descent by Mr Bush into Baghdad may also be on the cards. That would enable him to congratulate General David Petraeus on having delivered a significant reduction in violence in Iraq and to scold the Shia-dominated government of the ailing Nuri al-Maliki for having failed to use this as an opportunity to move towards political reconciliation with the Sunnis.

Perhaps the only item on Mr Bush's agenda likely to meet with consensus on all his travels is Lebanon, where a year-long proxy struggle between America and Syrian-backed factions risks degenerating into outright strife. But though Mr Bush's friends in the region concur that the Syrian regime is bad, and that its Iranian-backed protégé in Lebanon, Hizbullah, is dangerous, none seems sure about how to counter Syria's deeply entrenched interests.

Mr Bush is bound to be politely received by all the region's leaders even though, like other Americans before him, he has chosen to tour the Middle East very late in his presidency (Richard Nixon paid a visit just days before resigning to avoid impeachment). Unlike previous presidents, however, Mr Bush remains an even more unpopular leader on the Arab street than he is at home. He will have to do more than kiss and smile to change that.

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

France

Sarkozy's testing year ahead

Jan 3rd 2008 | PARIS
From The Economist print edition

France looks forward to more controversial reforms and more protests—all at a time when the European economy is slowing

Reuters

Get article background

THE economic mood may be souring fast, but Nicolas Sarkozy still managed to bring some festive cheer to his electorate over the holiday period. His liaison with Carla Bruni, a Franco-Italian singer and one-time supermodel, whom he took on an official-trip-cum-holiday to Egypt, was splashed on every magazine cover and seemed to fill the airwaves for days on end. But even the latest chapter in the presidential family soap opera may not be enough to distract the voters from harsher times ahead: a fresh batch of reforms against a backdrop of rising prices and weakening economic growth.

“Despite the obstacles, despite the difficulties, I will do what I said I would,” vowed Mr Sarkozy in his televised new year's message this week. The diary of reforms planned for the coming months is certainly full. January 15th is the (revised) deadline for trade unions and employers to reach agreement on how to loosen France's rigid labour laws. Under discussion, among other matters, are the country's tough redundancy rules and highly protected work contracts, which have discouraged job creation. The idea is to secure more flexibility for employers, in return for greater efforts to improve training and salaries for employees. But the talks have been predictably difficult, not least because Mr Sarkozy has let it be known that, if no deal is reached by the new deadline, the government will legislate anyway.

François Fillon, his prime minister, has just added two extra items to the labour-market negotiations. One is to make the financing of the unions more transparent. The other concerns working time, which is limited by the notorious 35-hour week introduced by a Socialist government in 2000-02. The government has tried to lessen this constraint by making any time worked over 35 hours free of tax and social-insurance charges. So far, two-fifths of firms employing more than ten people have made use of this rule. But overtime rates must still be paid. Mr Fillon now says that working time itself should be discussed, in return for better pay, and that it should be negotiated company by company. The parties have been given until the end of March to reach an agreement.

The coming months will also bring a broader review of pension rules. The pension reform that triggered a crippling nine-day strike last November touched only the 1.6m people in “special regimes”: train drivers, railwaymen, gas and electricity workers and others entitled to a full pension after 37.5 years'-worth of contributions, against 40 for everybody else. Now that the special-regime workers have accepted a longer contribution period, the overall rules are up for review. At the very least, the period is likely to go up to 41 years, but this change will be fiercely contested. A big demonstration is already planned for

January 22nd. On top of all these plans, there are proposals to merge the job-placement and benefit agencies, to make certain company-tax breaks conditional on pay rises for the lowest-paid, to introduce a back-to-work benefit to make work pay more than welfare, and to break the stranglehold of the big five unions on worker representation.

Will any of these measures help to lift France's growth rate from its recent meagre average of 2% a year? Judged by the standards of the Chirac years, when successive governments backed away from reforms in the face of street demonstrations and strikes, they constitute a veritable blast of reform. Before Mr Sarkozy came along, nobody dared to touch the special regimes, for instance, nor to attack the cherished 35-hour week.

Yet a closer look at the Sarkozy method reveals some shortcomings. The first is a tendency to give ground to secure a headline-grabbing deal. Consider the reform of the special regimes, which Mr Sarkozy has presented as a done deal. In reality, despite acceptance of the “progressive lengthening” of the contribution period to 40 years, the only final agreement struck so far is at the RATP, which runs the Paris metro and bus system. In return for 40 years of contributions, it has agreed among other things to increase pay grades on which pension benefits are calculated. Yet without knowing the details (which the RATP will not divulge, on the ground that this is an internal matter) it is impossible to judge the net benefit.

The second weakness is an instinct to micro-manage. Take the 35-hour week. Rather than just getting rid of the legal limit altogether, Mr Sarkozy has put in place a web of new rules and incentives to encourage everybody to ignore it. One is the tax break on overtime. Another is the request to bosses and unions to negotiate their own working-time deals. A third is a plan to allow employees who already work for more than 35 hours a week to cash in the days off that they get in return. Some companies give 22 such days, on top of normal paid holiday; vast stocks of these have built up over the years. Although employers like the idea of reducing these holiday promises, they will be less pleased to be invited to foot the bill. The upshot may turn out to be the death of the 35-hour week, but it is a mightily complicated way to go about it.

The third worry over Mr Sarkozy is his attitude towards public finances. He has already postponed from 2010 until 2012 the government's promise to balance its budget. In 2008 the deficit is expected to be 2.3% of GDP, the widest gap in the euro zone (though less than in Britain). In the third quarter of 2007, public debt still amounted to 65.9% of GDP. Although Mr Sarkozy has stepped back from the gratuitous handouts that some observers had feared, there is a continuous struggle within the government between those arguing for tighter fiscal control and those content to spend come what may.

The biggest problem, though, is that Mr Sarkozy is hoping for the first results of his reforms to come through at just the moment when the global credit crunch is hitting home, even in the euro area (see article). Mr Sarkozy had hoped that his autumn “fiscal shock”, worth nearly €11 billion ($15 billion) in 2008, would boost confidence and accelerate growth. But France has not felt it. Thanks in part to rising oil and food prices, household confidence has fallen sharply since September, and the French are feeling the squeeze on their pockets. In polls, they repeatedly cite “purchasing power” as their biggest worry. In December Mr Sarkozy's approval rating fell to 49%, according to TNS-Sofres, a pollster, from a high of 65% in July.

All of which is palpably frustrating for the French president, who sometimes talks of economic growth as if he thinks it can be bullied into doing better. He has repeatedly said that he wants GDP growth of 3%, declaring that “I will not wait for growth, I will go and find it.” Although the government forecasts 2-2.5% growth for 2008, most economists reckon it will be 1.7-1.8%. The restless Mr Sarkozy may find he has embarked on a long search.

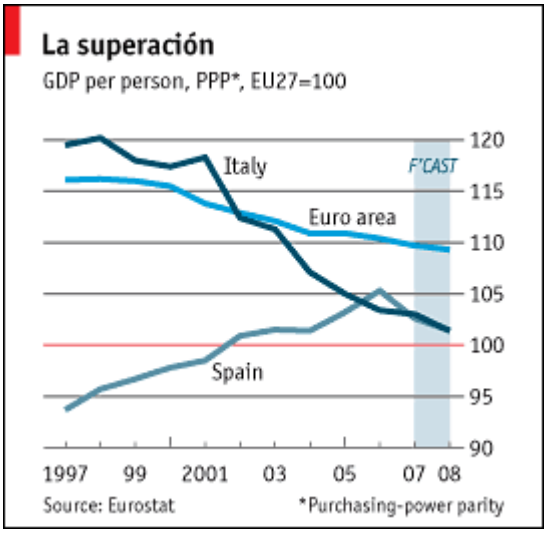
Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

Italy's fiscal policy

Tax bonanza

Jan 3rd 2008 | ROME
From The Economist print edition

Slow growth, rising taxes: an unhappy combination for Italians



THE Italian language has no word for hangover. Yet the Italian people began 2008 with a worse one than most. Just before Christmas they learnt that in 2006 they were officially overtaken by Spain in GDP per head (see chart), which though not unexpected still came as a shock. And there is near-universal conviction among ordinary Italians that they personally are poorer than they were 12 months ago.

Yet the statisticians say otherwise, insisting that Italy's GDP grew by 1.8% in 2007, even if it is now slowing again (officials also dispute the Spanish *superación* (surmounting), but that is another matter). One explanation can be found in a spacious office in Rome. Vincenzo Visco, deputy finance minister in Romano Prodi's centre-left government in charge of collecting taxes, had a splendid 2007. Government revenues soared by some €25 billion ($35 billion), after a jump of €36 billion in 2006. Part of the rise was due to GDP growth; part to measures taken by the previous government of Silvio Berlusconi. But an official report to parliament last October attributes almost two-fifths of the revenue rise to improved tax collection.

Italians' ability to cling to their earnings and profits is legendary. The untaxed (black) economy was reckoned in 2004 to account for a sixth of GDP, some 60% above the OECD average. To judge by their returns in the same year, Italian lawyers and dentists earned on average less than €50,000; restaurant owners barely €20,000; taxi drivers a pitiful €11,500. In 2005 only half of Italy's limited companies admitted to making any profits at all. Under- and non-invoicing to avoid value-added tax (VAT) are common.

The silver-haired Mr Visco has unleashed a determined campaign to get his compatriots to mend their ways. He has stepped up the inspection of shops, bars and restaurants; obliged middle-class professionals to accept payment by cheque; and curbed the use by firms of offshore fiscal havens. He grabbed public attention with an investigation into the tax affairs of one of the country's best-known sporting figures, Valentino Rossi, a motorcyclist. Most important, he has pushed through legislation to allow the finance police and civilian inspectors to cross-reference data from different sources, including bank accounts. “People now know we know,” he says ominously. Last year, it was reckoned, more than half the improved tax compliance was “voluntary”.

The effects of Mr Visco's clampdown are evident, even if the cause is rarely acknowledged. The cost of eating out has leapt as restaurants pass on the full cost of VAT. Lawyers report business deals unwinding as people make greater provision for tax. Centre-left politicians fret over what the new stringency might do to areas such as Naples, where huge swathes of the economy are black. More self-interestedly, they worry that much of the opposition's substantial lead in the opinion polls may be due to Mr Visco's exactions.

Well over half of Italy's 40m taxpayers are wage earners and pensioners who have their taxes deducted at source. They ought to back the new clampdown. Yet many are as hostile as the self-employed and employers. This is because, even as it tackles tax evasion, the government has increased the overall tax burden. Companies won some relief last year with a reduction in corporation tax, but many individuals (especially the single and those not owning a home) are worse off. Proposals for selective cuts in tax rates have won support even from the trade unions.

Nicola Rossi, a rare liberal in the ruling majority, argues that taxpayers are being saddled “to an

absolutely unreasonable extent” with extra bureaucracy. He wants to see money clawed back from tax dodgers spent on cutting tax rates for those who have no option but to pay. As it happens, in this he is supported by Mr Visco himself.

One reason the government finds this hard is made clear in a recent study by two economists, Tito Boeri and Pietro Garibaldi. They have found that over two-thirds of the extra tax revenues are going towards more spending, much of it beyond the control of central government and a lot of it used by politicians to dispense patronage and appease vested interests. “Until they cut spending, I don't think they'll be able to cut taxes,” concludes Mr Boeri. Spending has recently been rising, “like a train” in Mr Boeri's words, by a steady 2% a year in real terms. For the good of the economy, and of the centre-left, somebody needs to find the brake soon.

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

Charlemagne

Shop-worn arguments

Jan 3rd 2008
From The Economist print edition

What strict national rules on shopping hours and sales reveal about European views of competition

Illustration by Peter Schrank

ARE you glum about brashly commercial holiday seasons? Annoyed when winter sales start earlier every year? Then Charlemagne has the place for you. Pick the right European country, and no sales pitches need disrupt your festive cheer. Try France, where sales will by law begin only on January 9th. Or Belgium: not only are sales banned before January 3rd but, under “pre-sales” rules, for six weeks beforehand shops cannot announce price reductions, lest somebody jumps the gun.

During the twice-yearly pre-sales blackouts (there are also summer sales) a hundred inspectors from the Belgian economics ministry scour the country for advertisements, window stickers or price tags that even hint at discounts. A Prohibition-style speakeasy culture has sprung up in response. Gambits include putting question-marks on price tags and advertising “friendly prices”. Chic boutiques in Brussels telephone favoured customers or send them “privilege cards”, inviting them to pop in for an early visit. Controls must be “extremely severe” to ensure that the rules stick, explains Robert Geurts of the economics ministry, who glories in the title of director-general for regulation and organisation of the market. Inspectors receive many tips by telephone as rival shopkeepers denounce each other.

If all this sounds fundamentally illiberal, that is because it is. One Eurocrat suggests that a key ancestor of many continental bans on unfair trading is a German law from the mid-1930s that sought to stamp out what Nazi officials called aggressive “Jewish” conduct among shopkeepers. But the laws also carry more than a whiff of distrust of capitalism itself. Belgian parliamentary papers from the late 1960s describe indignantly how some shops “deliberately” sell products at a loss to attract customers who might buy other goods at full price, a ploy referred to as “destructive” competition. Such loss-leaders were banned in Belgium in 1971, along with any selling below cost or at “extremely reduced” profit margins. This has kept the lawyers busy as the courts argue over what extremely reduced might mean. And that is why sales in Belgium are such a big deal: though offering discounts is legal at other times of the year, the sales are the only time when Belgian shopkeepers may sell goods at a loss.

In Belgium, you cannot even tell customers to “buy one and get one free”, as the maximum discount for multiple sales is 33%, or buy two and get a third thrown in. And sales are reserved for the “seasonal renewal” of stock. That means no goods may be specially bought in for the sales, and things deemed non-seasonal may not be put in sales. Cue more court cases: judges have established that sofas are seasonal but antiques are not.

To distant observers, all this could add up to a picture of a country, indeed a continent, that is keener on

the smothering embrace of state control than on the rigours of capitalism. Belgian shops are mostly obliged to close by 8pm every day; Sunday opening is rare. Price controls on bread were abolished only in 2004. Yet the true picture is both messier and more revealing of the forces that really hold Europe back.

Reforms are possible in Europe, now a thoroughly capitalist continent. It is just that vested interests and coalition politics make the pace of change glacial. A European Commission proposal to liberalise sales promotions expired in 2005, killed by national governments. Yet in the past decade Germany and the Netherlands have trimmed or scrapped rules governing opening hours and trading practices. France still fixes sales periods and bans selling at a loss. But those rules have just been proposed for the scrapheap by a state-sponsored committee.

Belgium has a pretty dynamic business sector (at least in Dutch-speaking Flanders). It has pulled off some quite big reforms over the years, despite a national inclination for cosy compromise. You should have tried the 1970s, says Mr Geurts cheerfully: “We really had price controls. There was a real desire to control everything.” The government has just published a report by a lawyer, Herman De Bauw, urging the abolition of several obviously daft restrictions, including pre-sales blackout periods. Although he wrote much of the existing law, Mr Geurts himself admits that it is “showing its age”.

The power of vested interests

But there will be opposition, led by the small shops and businesses that benefit from the weirdest trading laws. The pre-sales blackout on advertising discounts is a prime example. It was dreamt up in the 1980s by centre-right politicians fearful that small businesses could not compete if big chains were allowed to go after bargain-hunters in an unregulated free-for-all. The blackout forbids publicising price cuts, but there is no matching ban on giving a customer a discount in the run-up to the sales, so long as they ask for one. It is no coincidence that haggling is possible in small shops, but harder in chain stores.

Rules on fixed sales periods and selling below cost have come about in a similar way. Their target is explicit: big chains that are often accused in parliament of plotting to drive small businesses into extinction, so as to establish monopolies and raise prices at their ease. As the De Bauw report notes, this is a dubious argument. Fierce competition, it says, not monopolistic pricing, marks out Belgium's supermarkets.

Belgians, like many other Europeans, appear genuinely attached to town centres filled with small shops, rather than the same old chains. Nor is there any great consumer pressure for longer shopping hours: many stores shut long before the legal closing time. Yet when Belgium's shopkeepers use their political clout to hold everybody to the same starting date for sales, or ban each other from setting their own prices, they are killing jobs and hurting customers. No wonder capitalism has such a mixed reputation in so much of Europe. Often it is not markets that are lacking, but free markets. And that is something to feel truly glum about.

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

Immigration controls

Guarding British soil

Jan 3rd 2008
From The Economist print edition

Britain's immigration regime, long one of Europe's most liberal, is to tighten up. Will it secure the jobs of British workers—or those of MPs?

Report Digital

Get article background

DURING dull moments in the office, British workers may while away the time looking at the website of Australia's immigration department and daydreaming about life down under. Every two years the agency updates its list of the skills the country wants to import: if yours comes up, and you are suitably young and qualified, you may be awarded enough points for a passport to warmer climes.

From March, Britain's government will begin to roll out its own “Australian-style” points-based immigration system for workers from outside the European Union, looking at education, earnings, age, command of English and other factors. One reason is to simplify matters: the new system will replace more than 80 different ways of coming to work in Britain with five tiers. Another reason, ministers say, is to make sure that Britain receives only the migrant workers it needs. Alongside a battery of other recently announced changes—from citizenship tests through higher age limits for foreign brides to a new border police force—the points system is the centrepiece of what the government calls the biggest ever change to Britain's immigration system.

They dub it thus with one eye on the polls, for immigration is voters' single biggest worry these days. In November a survey by Ipsos MORI found 72% of people unhappy with the government's handling of the matter. Immigration is seldom off the agenda in any country, as our special report this week makes clear, but things are especially acute in Britain. With immigration running at its highest rate in decades, 68% of people say they think “there are too many immigrants in Britain”—the highest proportion in almost 20 years—though 48% still believe “immigration is generally good for Britain”. Local councils complain of inadequate resources to deal with newcomers. Home Office gaffes, the repeatedly revealed inadequacies of official statistics and underlying fear of Islamist terrorism all stoke unease.

As Britain's economy predictably cools, the argument over immigration will come down increasingly to the question of jobs. No one disputes that immigrants have spurred economic growth, though it is less clear that they have boosted growth per person. The recent wave of Poles, Lithuanians and others from new members of the European Union—mainly young, white, healthy and willing to tackle hard-to-fill jobs from plumbing to care work—have blended in more easily than most.

Danny Sriskandarajah of the Institute for Public Policy Research, a think-tank, points out that foreign workers have generally been drafted in only when the domestic labour market has been tight (see chart).

Yet there is evidence that migrant workers have exerted downward pressure on wages in some low-skilled sectors. And in an economy where a stubbornly high proportion of young people are not in education, work or training, easily employable foreign workers can seem a menace. Gordon Brown, the prime minister, recently promised more “British jobs for British workers”, only to be embarrassed by the subsequent revelation that 1.5m of the 2.7m new jobs created in Britain over the past ten years had gone to foreign workers.

The government's vaunted new toughness on immigration is an attempt to convince the public that it can prevent migrants from edging young Britons out of their own labour market. Yet according to John Salt of University College, London, fewer than 40% of migrant workers will be covered by the new points regime. Those from the EU—with the exception of Romania and Bulgaria, for now—can work as they please around Europe.

Of those that are covered, highly-qualified young people on big salaries will have the easiest passage, being allowed in even without a job offer; medium-skilled workers will have to hunt around more carefully for points, unless their profession is deemed particularly in demand by a new council of economists. Low-skilled workers assigned to a third tier (again, only those from outside Europe) will be shut out, for the time being at least. Two remaining tiers will serve students and short-term workers such as pint-pulling backpackers. Ministers will be able to move points thresholds up and down according to what they, advised by assorted wise men, think is in the national interest. A possible next step, already advocated by the Conservatives, is annual quotas.

Britain's skilled workforce is unlikely to change radically. The “gold-collar” workers who make the City of London tick should have little difficulty making it into Tier 1, under which any graduate earning more than £40,000 ($80,000) a year is expected to be admitted with few questions asked. And those who are coming in on internal transfers within their firms will face relaxed criteria, points out Mr Salt. In some industries this will make a big difference: some 80% of IT work permits, for example, go to such transferees.

The biggest impact is likely to be on low-skilled workers such as the Ukrainians who pick fruit in Lincolnshire or Bangladeshis dishing up curry in London. Their sole route of entry—Tier 3—will be opened up only if there is a sudden need for such workers (to complete last-minute Olympic building, for instance, or to shore up care homes).

Keeping out the unqualified to improve Britain's skills base may sound sensible, but it raises the question of who will do the jobs that require little more than willingness. Soon all Britons will have to stay in education or training until the age of 18, after which strawberry-picking would be a disappointing career. Britain reckons on filling the gap through an endless stream of workers from new EU states. But many overqualified Poles who have proved enthusiastic pickers of cabbages are already ditching agricultural hard labour in favour of bar-tending and the like in the cities. Fewer migrants will come in the first place, or stay, as their home countries get richer: wealthy Slovenia, for example, has sent hardly anyone to Britain. And other rich EU countries may soon seek to lure them.

When these sources run dry there remain Bulgaria and Romania—and perhaps, one day, Turkey. But Britain may need to look beyond Europe sooner than it thinks. The economy has a seemingly insatiable appetite for foreign labour; and having grossly underestimated future numbers of eastern European workers a few years ago, the government would be embarrassed by overestimating them now.

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

Victorian diseases

Still with us

Jan 3rd 2008
From The Economist print edition

Two pre-modern ailments are making a comeback

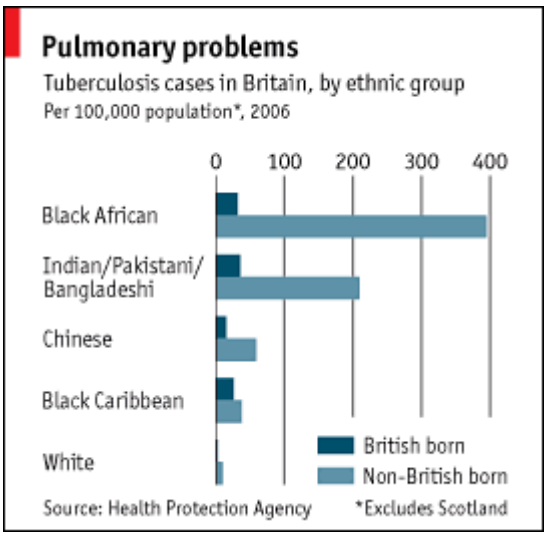
AS BEFITS an industrialised country, Britain's public-health problems are those of wealth rather than poverty. But beneath headlines about fat, cigarettes and a national epidemic of drunkenness, two diseases that were believed vanquished decades ago are re-emerging. Both are linked to immigration.

On December 28th the Department of Health (DoH) confirmed what doctors have long suspected: rickets seems to be on the rise. The disease—thought to have been eradicated in the 1950s—stunts growth and deforms the skeleton, characteristically causing bowed legs and worse.

The other disease is tuberculosis, dimly remembered as an affliction of slum-dwellers and glamorous Victorian poets. Antibiotics and a national screening programme had all but wiped out “consumption” by the middle of the last century. Yet cases have been increasing since the mid-1980s. In 2000 6,323 were reported in Britain (excluding Scotland), or 11.7 for each 100,000 people; by 2006 that had risen to 8,113, or 14.6 per 100,000, and the true number is thought to be higher.

Migration is involved in the resurgence of both conditions, though in different ways. Rickets is usually caused by a lack of vitamin D, which is needed to absorb calcium to build bones. Most vitamin D is made when skin is exposed to sunlight. Not much sunshine is needed—around 15 minutes a day in summer—but obtaining it in Britain, with its grey climate, house-bound children and official warnings about skin cancer, can be tricky. North of around 52 degrees latitude (roughly, beyond Milton Keynes), the winter sun is too weak for vitamin D to be produced. Skin colour matters too: dark-skinned people require more sun. What scant data there are suggest that up to 1 in 100 children from ethnic minorities may suffer from rickets.

Whereas migrants from sunny countries may develop rickets after arriving in Britain, tuberculosis is a disease that often comes with them. Rates of infection are lowest among natives and highest among immigrants from Africa (see chart), where the disease is common in part because of the spread of AIDS, whose sufferers are particularly susceptible to infection. Tuberculosis is most common in the poorer areas of Britain's cities, which tend to have high immigrant populations and where poverty and deprivation erode resistance to the disease. Newham, a poor east London borough that is home to many immigrant families, has around 100 infections per 100,000 people, the highest rate in the country and comparable to China's figure.



In theory, rickets is easy to cure: official advice is to get more sunshine and, for pregnant women and young children, to take vitamin D supplements (though only around a fifth of mothers heed it). Tuberculosis is harder to stamp out. Vaccinations, which used to be universal, have been reintroduced for children in high-risk areas. Immigrants from countries with the disease are offered screening when they arrive, although Chris Griffiths, a tuberculosis expert at Queen Mary, University of London, reckons the system is too leaky to catch all of them. Often those most at risk are hardest to reach. One drug-resistant strain has been circulating in Camden and Islington for five years, especially among homeless people and ex-prisoners. This has prompted suggestions that sufferers be detained in secure hospitals—a Victorian response to a Victorian disease.

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

Commercial property

Dominoes on the skyline

Jan 3rd 2008
From The Economist print edition

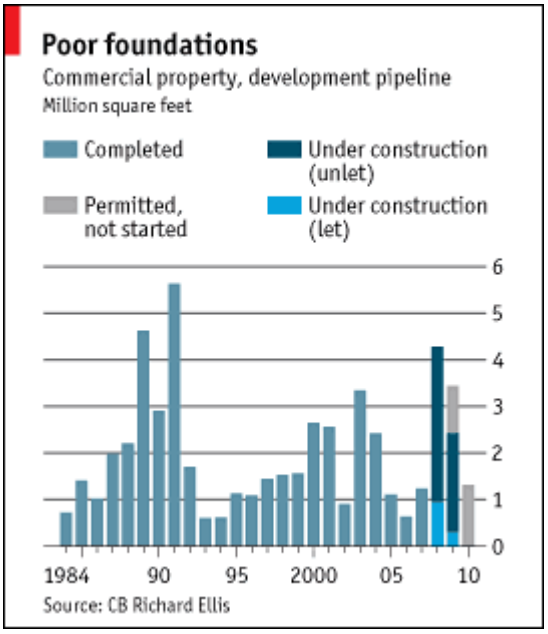
Collapsing markets suggest a mini-subprime crisis in the making

Get article background

FROM up high, London is a picture of vigorous renewal. In just about every direction, construction cranes point contemplatively to the skies. They also point to the great boom that has taken place in commercial property in recent years. The collapse of that boom, which now threatens to slash the values of these gleaming office towers and destroy the savings of millions, may pose almost as great a threat to Britain's banking system as the subprime crisis that has been roiling financial markets since late in 2007.

Bubbles are most easily seen with hindsight, but this one was in plain view even as it inflated. In 2004 and 2005 British office prices rose at an average rate of 10% a year before jumping 17% in 2006, according to IPD, a data provider. Rental yields fell, meanwhile, to below the cost of borrowing in late 2006. By the middle of last year, with rents rising and buildings bursting at their seams, frenzied buying had pushed up prices and widened the gap between yields and borrowing costs to 1.7 percentage points.

Developers, too, overcame their caution at just the wrong moment. Many had burnt their fingers on speculative towers in the 1990s. So for the first half of this decade, few landlords started pouring foundations until they had signed up elevator-loads of dependable tenants.



Yet, with the impeccably bad timing the industry is known for, construction boomed just as the market was peaking. CB Richard Ellis, a consultancy, reckons that new offices are being built in London at their fastest rate in nearly two decades. Most of the ones going up this year have yet to find tenants (see chart), and not all will, for the freeze in credit markets has spread to City payrolls. Law firms stopped hiring in the third quarter of last year, and banks are sure to do the same soon.

Rents in London's financial district, which CBRE says rose by 22% in the 12 months to the end of September 2007, will probably fall by about 5% this year, according to John Fraser-Andrews of HSBC, a bank. And although a decline in commercial-property prices was inevitable, its ferocity has taken many by surprise. In November the value of commercial properties dipped by about 4%, their largest monthly drop on record. CBRE reckons that commercial properties are worth about 9% less now than they were at their peak in July. Capital Economics, a consultancy, thinks their value may have slipped by some 15%.

Yet even so prices may have a long way to fall. Tim Bond of Barclays Bank says the derivatives markets are forecasting the biggest collapse in commercial-property prices since the second world war—a fall of up to 30% over the next three years. In 1989-92, when property last took a tremendous tumble, values plunged by about 27%, according to the Bank of England.

Such a fall could wreak havoc on Britain's banks, which are already smarting from losses on investments backed by mortgage loans in America to borrowers with spotty credit records (subprime loans). The Bank of England frets that by the end of the third quarter British bank loans to commercial-property companies had increased to £186 billion, or about 9% of domestic lending. This is a higher proportion than during the last big bust, when collapsing property prices contributed to the closure or failure of 25 small banks and helped cause an economic downturn.

The European Central Bank, meanwhile, worries about the proliferation of credit derivatives and securities backed by mortgages on commercial properties in Britain and America. These, says Ian Harnett of Absolute Strategy Research, a consultancy, may end up posing as great a risk to the financial system as securities based on American subprime residential mortgages, which brought the world's financial system to its knees in August.

Others are more sanguine, mainly because, however much banks have lent to commercial-property firms, they have handed out still more to homeowners. Mr Bond, for instance, thinks that the fall in property prices in Britain may force banks to write off 2-3% of the value of their commercial-property loans over the next few years. At worst, he says, the meltdown in that market will cause only about a quarter as much damage as defaults on bad residential mortgages. Not really a comforting thought.

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

National Health Service

Birthday politics

Jan 3rd 2008
From The Economist print edition

As the NHS turns 60, politicians fight to blow out the candles

Get article background

NO SOONER had the new year begun than the parties grabbed scalpels and started scrapping for advantage in the operating theatre. In a message to health-service staff, Gordon Brown said this would be “the year in which we demonstrate beyond a doubt that the NHS is as vital for our next 60 years as it was for our last”. Since Labour founded the health service in 1948—an act opposed then by the Tories—the prime minister's letter was pure politics. For his part, David Cameron, the Conservative leader, proclaimed an audacious ambition for the Tories “to replace Labour as the party of the NHS” in 2008.

The intense political focus on the health service springs from continuing public worries about its condition. Over the past decade, it has generally been rated the most important issue facing Britain, according to Ipsos MORI, a pollster. More recently it has slipped behind immigration and crime, but over the past year it has usually come second or third.

Even more important in the calculations of the two leaders, Labour no longer holds the commanding heights in health-care politics. For several years after winning power in 1997, Labour outscored the Tories by colossal margins as the party with the best policies for the NHS. This lead had collapsed by the time that Tony Blair stepped down as prime minister last summer. Beset by his own difficulties, Mr Brown is also in trouble. According to a recent poll by Populus, Labour is only narrowly ahead of the Tories as the best party for the NHS: 33% of respondents backed Labour, 29% preferred the Conservatives.

The public's loss of faith in Labour is rooted in a sense of disappointment that too little has come of the record funding increases of the past decade. Although long waits for operations are a thing of the past and many more patients are being treated, other aspects of the health service are lacklustre. Cancer-survival rates are poor by international standards; family doctors no longer see patients on Saturdays; and hospital-acquired infections are frighteningly frequent. Fuelling public discontent, medical staff are astonishingly fed up, even though they have received a string of big pay increases.

Mr Brown is now trying to respond to some of these concerns. A new five-year strategy to combat and prevent cancer was unveiled a month ago. The government is trying to get family doctors to extend their opening hours to evenings and weekends. Improving cleanliness and reducing hospital-acquired infections are now high in the NHS's objectives for the coming year.

But Mr Brown being Mr Brown, he has also set up a longer-term review as a way to regain the political advantage on health that Labour had so carelessly squandered. Within days of becoming prime minister he asked Lord Darzi, a surgeon and junior health minister, to set out a ten-year vision for the NHS by June 2008. Conveniently, that will be just before the much-heralded 60th birthday on July 5th.

Although an interim report rushed out in October was a damp squib, the review will serve two political purposes. First, it will enable Mr Brown to set out grand plans for the NHS so that he can make the most of the anniversary. Second, the review itself, headed by a prominent clinician, is designed to build bridges with medical staff, who have been disillusioned by Labour's itch to interfere.

There are dangers for Mr Brown in his attempt to smarten up Labour's health-care looks. In his message on January 1st he held out the prospect of a new constitution for the health service, setting out “the rights and responsibilities associated with an entitlement to NHS care”. But this got a dusty reception when it was interpreted as meaning a possible denial of care to patients (such as the superfat) who fail to do enough themselves to prevent illness.

One reason why Mr Brown wants to enhance the preventive role of the NHS is that the funding bonanza

ends in the spring. The prime minister has a fight on his hands. If his strategy to rebuild Labour's lead fails, it will be the Conservatives under Mr Cameron who will be celebrating the 60th anniversary of the NHS.

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

Drinking

The morning after the night before

Jan 3rd 2008
From The Economist print edition

It's not when you imbibe but how much that counts

VOMIT and broken glass are as much a part of the festive season in binge-prone Britain as are crackers and tinsel. This year, though, drinkers took the customary bender further than usual. Calls to ambulance services in the first four hours of 2008 rose dramatically: in London, for example, by 16% on the same period in 2007, and by 30% on 2006. Those caught in the crossfire took evasive action: some churches held “midnight” mass as early as 6pm on Christmas Eve to avoid drunken interruptions; some councils brought forward their New Year's Eve firework displays, or cancelled them altogether.

These excesses did little to convince critics of the licensing-law changes in 2005—which allowed pubs to stay open past the old closing time of 11pm, even around the clock—that the country is acquiring the less sodden, continental-style drinking culture that the liberalisation was supposed to foster. Doctors' and patients' groups, which had opposed the move in the first place, are calling once more for the government to backtrack.

Last year it looked as if opponents of looser licensing laws would get their way. The puritanical new prime minister, Gordon Brown, threw out plans for a supercasino, promised to rethink the decision to downgrade cannabis and said that he “would not hesitate” to tighten the alcohol-licensing rules once more if a review of the new regime warranted it.

But they now seem likely to be disappointed. That review, due soon, will probably recommend only a few tweaks. There will be tougher measures to curb under-age drinking, and harsher penalties for rowdy venues, but no return to last orders. Although ending the race to drink up before closing time has not moderated drinking habits, neither have apocalyptic predictions come to pass. Violence fuelled by alcohol has remained broadly stable, with slightly fewer incidents around 11pm, when tanked-up hordes used to pour out onto the streets, and slightly more in the wee hours.

That may be because 24-hour drinking is almost nowhere the reality. Most premises have extended their licences by only an hour or so. Only 3% are open around the clock, and two-thirds of them are hotels, which were entitled to 24-hour licences under the previous regime.

The battleground is now shifting from the mean streets to suburban living rooms. There has been a long-term rise in the number of Britons drinking enough to damage their health: 4,144 deaths were caused by alcohol in 1991; by 2005 that had more than doubled to 8,386. Many are middle-class and middle-aged folk who would never dream of taking a swing at a fellow boozer, but regularly polish off a bottle or two of wine at home with dinner.

Those who campaign for shorter pub-opening hours also want higher taxes on alcohol and a crackdown on happy hours and supermarkets' special offers. Here they may make more progress. In December MPs debated the consequences for the country's health of cheap alcohol; much time was spent castigating supermarkets for selling booze below cost, and one MP dubbed Sir Terry Leahy, the boss of Tesco, the “godfather of British binge drinking”.

Just before Christmas the Office for National Statistics had more bad news for bourgeois boozers: it has, apparently, been under-counting the Britons who drink to excess. Figures to be published later this month will take into account the trend towards stronger wines and larger wine glasses. Those whose New Year's resolutions include cutting down may wish to note that a large glass of high-alcohol wine comes in at a whopping three units.

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

Bagehot

The Mighty Atom

Jan 3rd 2008
From The Economist print edition

The meaning of Britain's favourite television programme

Illustration by Steve O'Brien

IT IS hard to explain the enduring appeal of Bruce Forsyth—especially, perhaps, to anyone who isn't British. Mr Forsyth, who turns 80 next month, sports a silly toupee and an elongated chin. The jokes he makes in his high-camp nasal voice are too naff for reproduction in an upmarket newspaper. Yet Mr Forsyth is the improbable face of Britain's favourite television programme.

Twelve million viewers saw him compere the finale of “Strictly Come Dancing” on December 22nd. The programme has water-cooler status in Britain, but is also a runaway hit abroad: the format has been licensed to 27 countries (and counting), from Chile to China, Russia to Australia, mostly under the name “Dancing with the Stars”. Scandinavians and east Europeans are especially fanatical about it, but Americans are keen too. All that makes it and Mr Forsyth telling indicators of global entertainment trends and, by comparison, Britain's peculiarities.

Not all the indications are happy ones. Though few are as contagious as this programme, Britain is the world's biggest exporter of television formats. Many of the top ones combine the same game show/reality TV elements, in increasingly baroque combinations: participants who jostle for viewers' affection by singing, cooking, having sex, eating grubs, etc; presenters and pantomime judges to oversee their humiliation; and premium-rate voting by the audience to determine the winners. All these hybrids and spin-offs can make it seem that viewers' choices are contracting, even as the number of channels multiplies.

The latter-day gladiators in many of these shows are “celebrities”: in “Strictly”, as Mr Forsyth's programme is known among its British devotees, they are paired with professional dancers to compete against each other. Different sorts of people, it seems, count as celebrities in different places. In America, for example, one of them was an entrepreneur (not very likely in Britain). The last British series featured a balding ex-snooker player (not very likely in America). Many of the British contestants previously appeared in the sort of miserabilist soap operas, set in launderettes and fish-and-chip shops, which mystify American visitors. But some are has-beens and never-beens who gain celebrity status by appearing in programmes like this one. This model of celebrity—a shabby, evanescent thing, confected and disposable, harmless maybe but a bit depressing—has also been developed in Britain, and seems to be spreading too.

For all that, there is something heartening about the way the programme has galvanised the

international public. Heartening and—for others in the marketing business who fail to generate quite the same excitement, such as politicians—instructive.

To see you, nice

During his recent spell as acting leader of the Liberal Democrats, Vince Cable made some famously witty attacks on Gordon Brown. But the highlight of his stint, Mr Cable said when it ended, was dancing with the eventual winner of Strictly, even if it was “infinitely more nerve-wracking than standing up in the House of Commons”. Politicians, he added, could learn a lot from such TV shows, which motivate millions of viewers to vote for their favourite performers, and pay for the privilege (Mr Brown, meanwhile, says he prefers watching sport).

Part of the lesson may be that, whereas politics is remote and political parties confusingly similar, here the choice is clear, each vote counts equally, and the impact of voting is tangible and immediate. Like the renegade Victorian juries who compassionately acquitted pickpockets, British audiences tend to reward sweet if patently unco-ordinated underdogs while disposing of contestants who are too obviously trying to win. Mr Cable's victorious dance partner was an ex-pop star, who in one episode was brought tea and cake by her grannies.

A facile conclusion might be that real elections should be conducted by phone, text message and other new media, like television voting. Yet Strictly's success probably rests less on its modernity than on its old-fashionedness. It is, at bottom, a cheesy variety show camouflaged as reality-TV. Beneath the razzmatazz and interactive paraphernalia, its central ingredient—as improbable as Mr Forsyth—is the dancing itself. Because of the programme's contagious spread, tens of millions of people around the world are newly fluent in the arcane vocabulary of samba, paso doble, cha-cha-cha and one-handed lifts (rather as obscure sports such as diving and curling suddenly become mainstream interests during the Olympics).

Dancing, of course, is in part a proxy for sex—and in the case of some of the contestants, apparently a prologue to it as well. The sequinned costumes—said by some carpers to be much less snazzy in Britain than in America—are long on fake-tanned flesh and short everywhere else. But the programme also offers something almost equally primal that, in Britain at least, may help to explain its draw: a sense of community, of being part of a national event—a feeling that television used to provide routinely before viewers' attention was fragmented. In Britain, where social atomisation is perhaps more keenly felt than elsewhere, it also offers Mr Forsyth.

He started on the stage during the second world war, tap-dancing and playing the accordion as “Boy Bruce, the mighty Atom”, and still sings and tap-dances in the amateurish, have-a-go way that British audiences love. He has made a couple of forays to America, where his innocent innuendoes and music-hall style rather flopped. But on his home turf, Mr Forsyth and the meaningless catchphrases he has developed during his 50 years as a television host (sample: “Nice to see you—to see you, nice!”), are cherished precisely because they are throwbacks. He and “Strictly” captivate the millions of Britons who long for some things, at least, to stay the same, and whose secret idea of heaven is still dancing the Viennese waltz in a seaside hotel.

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

The United Nations

The rewards of beavering away

Jan 3rd 2008 | NEW YORK
From The Economist print edition

The UN's new secretary-general is neither a dazzler nor a grandstander, but (at last) he has some things to show for his long hours and dogged phone calls

AFP

Get article background

ON DECEMBER 31st African Union troops in Darfur exchanged green berets for blue ones. That did not make their job of policing Sudan's war-wracked western region much easier, but it signalled the formal creation of what is set to be the world's biggest peacekeeping operation, with 26,000 personnel, under the joint aegis of the AU and the United Nations. A fortnight earlier, 187 countries at a UN conference in Bali, including China and the United States, unexpectedly agreed to begin talks on a global effort to save the planet from climate change.

Apart from those two things, however, Ban Ki-moon would appear to have little else to claim for his first year as UN secretary-general. After years of headline-grabbing rows, divisions and scandals, the beleaguered world body suddenly seems to have gone quiet. No more bold plans for sweeping reforms; no more dazzling speeches, or grand visions for the organisation's future. Yet behind the scenes, without great fanfare, Mr Ban, although still far from a household name, is quietly getting things done.

It has to be admitted that the UN's first Asian secretary-general in 35 years got off to a poor start. A South Korean career diplomat, he knew little of the UN's complex culture, unlike his predecessor, Kofi Annan, who had spent his life working his way up through the organisation's ranks. Yet one of Mr Ban's first acts was to call for the resignation of all Mr Annan's senior advisers, replacing them with often inexperienced or even ill-qualified staff from outside the UN. His reliance on a coterie of compatriots provoked particular irritation.

There followed a series of embarrassing gaffes from which better counsel might have saved him. On learning of Iraqi plans to execute Saddam Hussein, for example, he claimed that the death penalty was a matter for individual member states—apparently oblivious of the General Assembly's history of opposition to capital punishment. During a visit to east Jerusalem, he deeply offended Palestinians by declaring himself happy to be in Israel. And his early attempts to push through UN reforms without adequate consultation raised hackles as well as eyebrows, particularly among the developing nations.

Furthermore, the low-key Mr Ban is not the natural showman that Mr Annan was. Smiling and polite, but rather bland in manner, he lacks the easy charm and dexterity with the English language that distinguished his predecessor. Matters have not been helped by some fairly disastrous appointments to his communications team. He is more of a doer than a communicator, he insists. Results are what count,

not flowery phrases and rhetorical flourishes. Yet the latter can be useful, particularly when the former are still rather thin on the ground.

In a speech summing up his first year in office, Mr Ban said that he had “not sat still”. He had flown 125,000 miles, made 57 official visits to 39 countries and territories on six continents, held more than 300 bilateral meetings with government officials and spent 132 days “on the road”, he noted. But other than getting blue helmets into Darfur and helping to get climate-change talks started, what has he done?

Nothing really spectacular, it is true. But that was not his aim. As Mr Ban announced before taking up his post, he wanted to concentrate on the many lofty goals that had already been set for the world body, rather than identify “new frontiers to conquer”. In particular, he wanted to restore its excellence, integrity and pride by making it more efficient, more accountable and more relevant to the needs of all its 192 members, including the weightiest of all—the United States—without whose support the UN can do little.

It is easy to forget the antipathy to the UN that existed in many American circles when Mr Ban first took over. Fury over the war in Iraq and the oil-for-food scandal had only recently died down; and many Republicans in particular still regarded the UN as an unnecessarily costly, disastrously managed, corruption-ridden obstacle to the free exercise of American policies in the world. There was even talk of scrapping the world body.

A year later, the tone has changed markedly, both in Washington and at the organisation's headquarters in New York. The departure of both John Bolton, America's abrasive ambassador to the UN, and Mr Annan, who suffered in Washington from his alleged role in “preventing” UN approval for the invasion of Iraq (though that was a decision of the Security Council), has helped. So has the appointment of a new, more consensual American ambassador, Zalmay Khalilzad, who believes America needs friends to operate effectively in an increasingly globalised world.

Eschewing his predecessor's bullying tactics and confrontational style, Mr Khalilzad has quickly earned a reputation as a shrewd operator. Well-liked and with a lot of charm, he has helped dissipate the huge distrust formerly felt towards America, particularly among developing countries. Far from wanting to weaken the UN, Mr Khalilzad says he wants it to become more involved in places like Afghanistan and Iraq (where he has served as ambassador), Darfur and Lebanon. Even George Bush is now talking of being committed to a “strong and vibrant” UN.

Is this because America has found a secretary-general who is willing to do its bidding? The United States is certainly said to have wanted someone weak and pliable to replace the troublesome Mr Annan, and Mr Ban was its choice (and China's). But even initial critics admit that the inscrutable Korean is far from being an American patsy. Indeed, he has skilfully exploited his links with his two most powerful backers to push through extremely difficult agreements on both Darfur (opposed by China) and climate change (opposed by both China and America).

Meanwhile, he has been pressing ahead with reforms to make the organisation more effective, transparent and honest. As of this week, the ethics code for 9,000 staff in the secretariat, established in the wake of the oil-for-food scandal, is being extended to all 60,000 employees in the organisation's various semi-autonomous agencies and funds. Any body that does not set up its own ethics monitoring system will come under the secretariat's Ethics Office. And sanctions are real; just before Christmas, 11 staff found guilty of corruption were sacked.

Mr Ban has also extended the work of the Procurement Task Force, likewise set up in the wake of the oil-for-food scandal, to investigate allegations of fraud in procurement deals. It has already exposed more than $600m in tainted UN contracts, mostly related to peacekeeping missions on which more than $5 billion is now spent every a year, and is investigating a further $1 billion in suspect deals.

EPA

Meanwhile, under the expert guidance of Alicia Bárcena, Mr Annan's former *chef de cabinet* and one of the notable survivors of the former regime, a commendable start has been made on one of the UN's most sensitive and intractable problems—management reform. For the first time in the body's history, senior managers have been asked to detail all the mandates affecting their departments, some 9,000 in all, with a view to chopping or consolidating the thousands that are outdated, overlapping or no longer cost-effective.

Mrs Bárcena has also launched a savage campaign against waste. She means to save mounds of paper, for example, by getting all the UN's present paper reports done electronically. As overseer of a planned $2 billion renovation of the UN's 39-storey headquarters, she plans to save on acres of wasted office space. And she hopes to exploit the expected retirement over the next five years of nearly half the UN's managerial staff to achieve the almost impossible task at the world body of cutting posts and shifting staff to new jobs.

Contrary to expectations, Mr Ban has also been surprisingly good on human-rights issues. Although he can do nothing about the disastrous new Human Rights Council, which was set up before he took over, he has been pressing ahead with the idea of an international "responsibility to protect" civilians from genocide and other atrocities when their own governments are unable or unwilling to do so.

Not just a stony face: after Algeria's bomb

Following that principle's reluctant adoption by the UN summit of world leaders in 2005, it risked being still-born. But Mr Ban is now seeking to resuscitate it, pushing through the appointment of a full-time senior adviser on genocide and other atrocities along with a part-time adviser on the "responsibility to protect"—despite initial fierce opposition from Russia as well as many developing states who object to the violation of their sovereignty by do-gooding Westerners. All senior UN appointments have to be approved by a majority of the General Assembly.

In recent weeks Mr Ban has shown that he is sensitive to individual tragedy as well as to atrocities on a larger scale. He was visibly overcome with emotion when comforting the families of 17 UN staff who were killed by a terrorist bomb in Algiers.

A comeback kid

After his first six months Mr Ban was widely being written off, in the words of one underling, as "mediocrity big-time". Thrown on to a world stage for which he was ill-prepared, he seemed destined to political oblivion. Despite his evident good intentions and commitment to the world body, some survivors from Mr Annan's reign became so disillusioned by his lacklustre performance that they thought of quitting. No longer.

As Mr Ban himself admits, his learning curve was steep. He was initially overwhelmed by both the sheer size of his job and its lack of any real power other than persuasion. As a Korean, he was used to putting his job ahead of everything, even his family. But at the UN he found a very different culture. Here were 192 sovereign states, each apparently determined to put national interests before the common good. As a man of integrity, he had perhaps naively hoped to "lead by example". At the UN, that is often not possible.

He has nevertheless won widespread respect. As many staffers and ambassadors have noted, what this seemingly grey man lacks in charisma, he makes up for in industry, a sharp mind and sheer tenacity. He gets on the phone and badgers world leaders relentlessly. That is how he got his breakthrough at Bali. That is how he convinced China to allow the UN flag to fly in Darfur. And he clearly hopes that his quiet doggedness can achieve quite a lot more before he leaves the East River.

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

Open up

Jan 3rd 2008
From The Economist print edition

Despite a growing backlash, the boom in migration has been mostly good for both sending and recipient countries, says Adam Roberts (interviewed here)

Eyevine

ENOCH POWELL had a point. The Conservative British politician gave warning, nearly four decades ago, that immigrants were causing such strife that “like the Roman, I seem to see the River Tiber foaming with much blood.” That proved to be nonsense, as did his advice that migrants should be encouraged to leave. Had they done so, Britain and other rich countries that depend heavily on foreign labour would be in a dreadful state. But one prediction he made was spot on: that by about now, one in ten people in Britain would be migrants. And indeed, at the last count in 2005, the foreign-born made up 9.7% of the British population.

By historical standards, that is high. It is a lot more than a decade ago, and the trend is resolutely upwards. Yet it is not dissimilar to that in many other rich countries, which have mostly seen equally rapid increases. And it is still lower than in America, where the proportion is now about 13%, not far off the 15% peak reached just before the first world war, in the previous great era of migration. What is particularly striking in Europe is that many countries which until recently had known only emigration, such as Ireland or Greece, are now seeing the sort of influx more typical of countries such as Australia and America.

This special report will argue that both emigration and immigration countries, as well as the migrants themselves, have been coping remarkably well with this new force that is reshaping our world. Yet there are now signs of a serious backlash against immigration on both sides of the Atlantic. In 2007 activists in America smashed a bill to make immigration easier that had the backing of the president and the leaders of both big parties in Congress. In France, Nicolas Sarkozy won the presidential elections partly thanks to his anti-migrant rhetoric. But this is still a far cry from Mr Powell's doom-mongering.

Politicians in rich countries may tinker with migration policies. They will certainly, under public pressure, put extra resources and energy into building more fences and walls to keep people out. And by making a connection between immigration and terrorism, they may cause their societies to become more heavily policed. But the basic forces driving migration are unlikely to ebb.

Counting the ways

People who cross international borders are often categorised by their motives, and some of these categories are seen as less desirable than others. Most migrants move for economic reasons, many in search of jobs, some to be united with relatives. Most appear to be doing so legally. America in 2002-06

allowed in an average of just over 1m legal immigrants a year who planned to settle permanently, more than half of them sponsored by relatives. Another 320,000 a year entered temporarily.

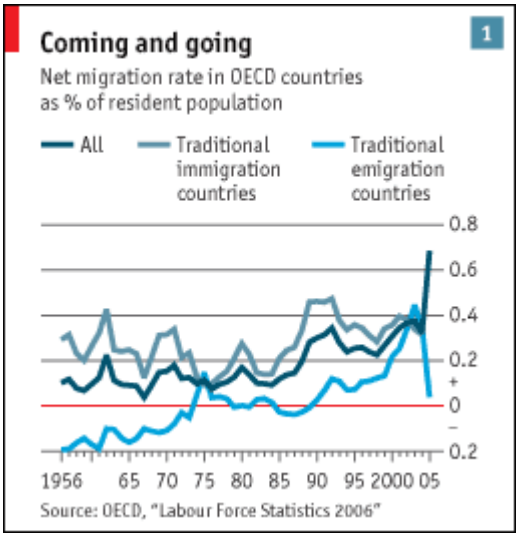
The number of illegal migrants is by definition hard to ascertain, but likely to be smaller than the legal sort. The illegals also go for economic reasons, and they probably make up the bulk of people seen floating on rafts in the Mediterranean or scrabbling over the fence from Mexico to America. Many illegal migrants do not risk the high seas or physical borders but instead enter under some other guise, perhaps as tourists, and then stay on. In that same period of 2002-06, America's population is thought to have seen a net gain of 500,000 illegal migrants every year. Within the European Union it has become impossible to keep a tally because people can move legally among most of the member countries without asking anyone. Britain, as an island, should find it easier than most to know how many foreigners it has allowed in, but its statistics on migrants have recently turned out to be way off the mark.

Lastly, there are refugees and asylum-seekers, strictly defined as those escaping persecution but often including anybody forced to flee, for example from a war. According to the UN's refugee agency, at the close of 2006 some 10m people fell into this category. Many go through legal channels, applying for refugee status and then asylum. But others join illegal migrants in trying to reach host countries by raft or by jumping over a fence. Genuine refugees may have no alternative.

The 200m question

The number of migrants in the world today, both legal and illegal, is thought to total perhaps 200m (though many of the figures, even those used by governments, are at best educated guesses). That sounds a lot, but it adds up to only 3% of the world's population, so there is great potential for growth. Migration has turned out to be a successful strategy for the world's poor to make their lives a little better. Nor is it the very poorest who travel. You need money to move to another part of the world. Thus as Africa, China and other emerging countries become less poor, many more people can aspire to travel in search of a better life.

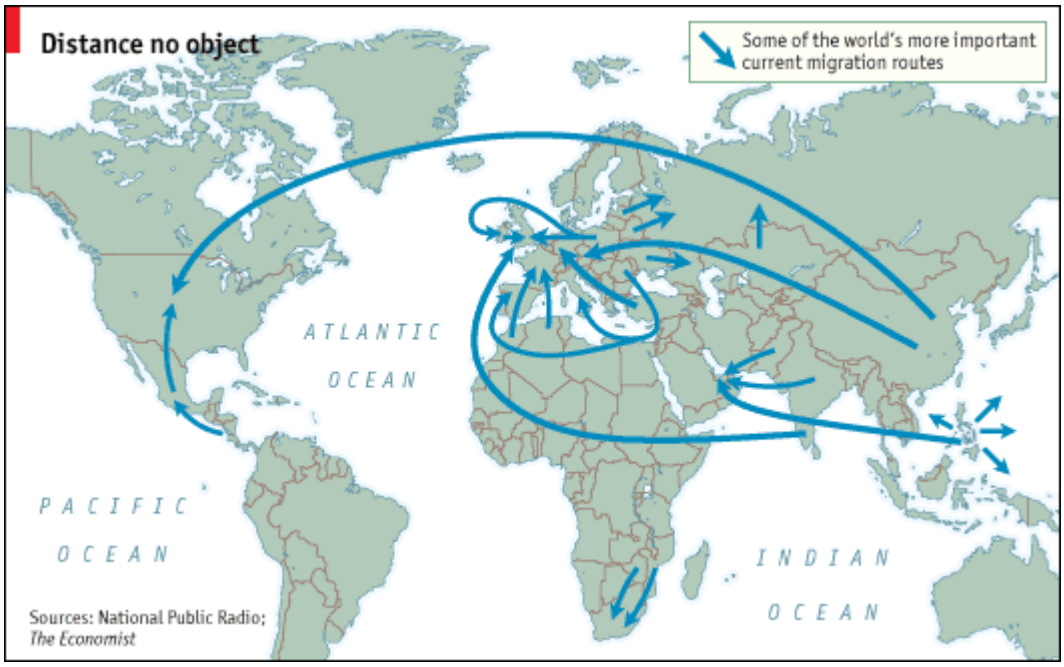
In the 100 years to 1920, such prospects encouraged some 60m Europeans to uproot themselves and move to the New World. A European who crossed the Atlantic could expect to double his income. Today the incentives are even more enticing. Those who move from a poor country to a rich one can expect to see their income rise fivefold or more. As long as such differentials persist, the draw will continue.



These days, too, demography is playing a big part in migration. Not every migrant is aiming for America or Europe: perhaps two in every five move to another poor or middle-income country. But those who go to the richest parts of the world do their inhabitants a favour. Without migrants, the greying and increasingly choosy populations in much of the rich world would already be on the decline today. That matters for their fast-changing economies, which increasingly demand either highly skilled workers or people willing to do unpleasant and tiring jobs.

One reason why much of the world has enjoyed a sustained economic boom with low inflation in the past decade is that the effective global workforce is expanding so fast. The IMF says it has quadrupled since 1980 as China and India have plugged their huge young populations into the world economy. It is likely to keep on growing, though at a slower pace, with a 40% increase in the world's working-age population forecast by 2050. According to the UN,the global stock of migrants has more than doubled in the past four decades. Not enough young natives have the right skills or motivation, so the rich must hope that outsiders will keep coming.

And they will. Luckily for Europe and America, there are huge pools of eager workers ready to jump on the next plane, train or leaking raft to work abroad. This can be beneficial for their home countries as well, at least as long as the population is growing fast. The IMF says that emigration from Belize, El Salvador, Guyana and Jamaica, for example, may have led to higher wages and less poverty. Some Chinese from the heavily populated east coast are moving out, despite a fast-growing economy. Researchers in Africa report a recent rapid inflow of Chinese workers.


Distance no object
Some of the world's more important current migration routes
ATLANTIC OCEAN
PACIFIC OCEAN
INDIAN OCEAN
Sources: National Public Radio; The Economist

If exporting brawn generally makes sense for a poor country, sending its better brains away may not. Most, perhaps all, poor and middle-income countries face chronic shortages of skilled workers. In South Africa, although universities churn out graduates at a fast clip, many well-qualified people promptly depart for Britain or Australia, leaving tens of thousands of jobs unfilled at home. In Morocco those with science and engineering degrees, computer skills and languages go to France, the Netherlands and Canada, whereas the students of literature and public administration stay at home. Professor Mohamed Khachami, of AMERM, a migration think-tank in Rabat, laments that his country lacks people to build better internet connections, yet Paris now has an association for Moroccan IT engineers. Hospitals and clinics in southern Africa struggle to cope with huge public-health problems as doctors and nurses pack their bags for jobs in the Gulf, Europe and elsewhere. It is a similar story for schools.

Those in demand abroad are the hardest people to keep at home. Some European countries tried, and failed, to stop artisans emigrating to America in the early 19th century. In fact it is almost impossible to block the exit for the highly skilled if the lure is strong enough. Small countries such as Jamaica, Trinidad and Senegal have seen half to three-quarters of all their graduates move abroad.

Rich countries have taken in more highly skilled migrants than ever before. The World Bank looked at a sample drawn from 52m migrants in 20 rich countries in 2000 and found that 36% of them had a college education, a sharp rise on a decade earlier. Yet emigration of skilled workers may be a consequence rather than a cause of problems in the sending country. For example, nurses may be quitting Malawi because their salaries are not being paid or because hospitals are crumbling; entrepreneurs may be moving abroad because the business climate back home is wretched. Stopping emigration, even if you could, would not solve the problems. The nurses might still leave their jobs, the would-be entrepreneur might sit on his hands.

Indeed, some argue that emigration can help to add to the stock of brainpower. Migrants who go abroad may spend more time studying, pick up more skills and experience and then bring them all home again. Remittances are often used to fund schooling. And the prospect of emigration and prosperity abroad may be an inducement for many more to get an education. All this suggests that the consequences of skilled emigration are difficult to calculate, even if they are not negligible.

Governments of sending countries would do well to tackle whatever factors are pushing their skilled people out in the first place. Malawi, which exports a lot of nurses, should of course worry that it lacks medical staff. It is said that there are more Malawian nurses in Manchester than back home. But, perhaps with donors' help, more investment in public health could be combined with a strategy of training many more nurses than are needed, allowing for future emigration and the other benefits that brings. If migrants can be tempted back home, even for short spells, all the better. Ghana, for example, has raised wages for some medical staff and offered incentives to the highest-skilled to come back. Money is not the only concern: staff are also allowed parts of the year to work abroad, giving a boost to their careers.

There is no guarantee that migration will carry on at record rates. It is possible to seal borders tightly

enough to keep more people out if those inside are ready to pay the price. An earlier period of great migration came to an end, for example, when America some 90 years ago shut its doors to immigrants for a while.

But easier movement of capital and goods has helped to make the world a much richer place in the past decade or two, and more human mobility has both created wealth and helped to share it out more equally. The billions sent around the world in remittances each year is testimony to that. The price of keeping people out would be high.

And unexpected things keep happening. Wars can suddenly displace millions of people who may start off as refugees but end up as migrants. Some people think that climate change might force tens of millions of people to get moving within just a few decades. Misguided policies, a backlash over terrorism or a failure to integrate migrants could all cause serious problems. All the same, it seems clear, 40 years on, that Mr Powell got everything but his sums completely wrong.

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

Of bedsheets and bison grass vodka

Jan 3rd 2008
From The Economist print edition

Rich economies gain from high levels of migration, but the benefits are unevenly spread

FOR the past two decades or so, high rates of immigration into OECD countries have coincided with prolonged economic growth in much of the Western world. Consider Cobh, a bustling tourist town in southern Ireland which used to be famous for exporting people. Some 2.5m Irishmen and women embarked for America from its quayside, and its great and gloomy neo-gothic cathedral was paid for by remittances.

Now, like the rest of Ireland, Cobh heaves with foreign workers. There are Poles on building sites, Latvians who own a shop selling dumplings, *sauerkraut* and other continental delicacies, a South African in the tourist office and another driving a taxi, Chinese in restaurants, a Bangladeshi managing a fishing business, and so on. A hotel owner says that he could not do without the migrants: when he recently advertised for a receptionist, none of the 200 applicants was Irish.

Reuters

They need her

Migration can be both a consequence and a cause of economic well-being, but many people in host countries with lots of migrants have yet to be convinced of the economic benefits. A poll in November 2007, for France 24, found that 55% of Spaniards consider migrants a boon for their economy, and so do 50% of Italians, but only 42% of Britons and Germans and a mere 30% of French respondents.

Some of the hostility towards immigration seems linked to worries about the economy. If recession looms, locals are more afraid that outsiders will take their jobs or scrounge on their welfare systems. The last time that immigration in America was as high as it is now, just under a century ago, xenophobia rose as recession took hold. Today, amid concerns that a housing slide could lead to a general economic slump, American anxiety about migration is rising again. But the poor worry about immigration even when the economy is thriving.

Legal migrants usually have better job prospects than illegal ones, and the more educated outdo the rest. Not all of them stay. Nearly a third of those who crossed the Atlantic to America between 1890 and 1914—and as many as half the Spaniards and Italians—re-emigrated. Similarly, surveys today show that a majority of Poles in Britain plan to go home within a few years.

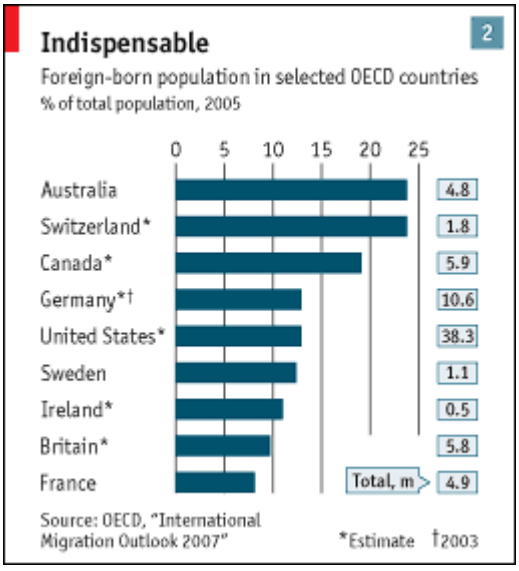
Some migrants do better not only than those left behind but also than those in their destination countries. The Institute for Public Policy Research, a British think-tank, found in 2007 that the foreign-born of many ethnic groups are both more likely to have a job and to be better paid than the average Briton. In America, over the past century, studies have shown migrants' wages catching up with, and then often surpassing, those of average Americans. Migrants' children do well too. This is not surprising. Migrants need health, skills, determination, a willingness to take risks and some entrepreneurial nous to take the plunge, which marks them out as special people.

Assuming that migrants are in work, they are bound to benefit the economy of the host country as a whole. Most simply, an expanding workforce permits faster growth. More people can do more work, and many migrants are young adults who are particularly productive. Moreover, migrants increasingly alleviate specific labour shortages in rich economies. Some economies could not function without foreign workers. In the United Arab Emirates, for instance, they make up an astonishing 85% of the population.

For the moment few other countries rely so heavily on outsiders (see chart 2), but in a number of rich countries, including Britain and America, foreigners typically make up 10-15% of the labour force and their share is rising. Around half of the new jobs

created in Britain today are filled by migrants, often because they have skills that locals lack (from plumbing to banking) or because natives scorn the work (from picking fruit to caring for the elderly).

Low jobless rates in Ireland, Sweden, Britain, America and other countries with high migration suggest that, so far, foreigners are not squeezing out natives. Migrants also help to create jobs, because a good supply of labour encourages those with capital to invest more. For example, the hotel owner in Cobh, knowing he can find affordable staff, has added an extension with extra rooms. In contrast, countries where migrants have been kept at arm's length, such as Germany, complain about a chronic shortage of skilled workers such as engineers, scientists or programmers.



Just say the word

Foreign workers are often more flexible than native ones, too. Having already moved from Mexico to California, say, they are probably willing to take a job in Chicago. Migrant labour helps to keep economies on an even keel. At times of strong growth, an influx of workers reduces the risk of wage pressures and rising inflation. If growth weakens, migrants can go home or move to another country, or choose not to come in the first place. For example, the flow of Mexicans to America is probably slowing as the housing slump worsens and construction jobs disappear.

Migrants can also release skilled natives to do a job (for example by providing child care that allows a parent to go back to work). And they are consumers, too, renting accommodation and buying goods and services. The owner of the off-licence in Cobh is delighted by his Polish customers, who are fond of bison grass vodka and east European lager. Cobh's supermarket, fast-food restaurants and other shops are flourishing too.

Quantifying the impact of all this is tricky. A 2007 report by PricewaterhouseCoopers concluded that a surge in migration has helped to lift Britain's growth rate above its long-term trend. Alexandros Zavos, of the Hellenic Migration Policy Institute in Athens, reckons that immigration into Greece has recently added as much as 1.5-2.0% to its GDP every year. For countries that have long had high rates of immigration, such as America, sustained economic growth partly reflects an ever-growing workforce.

Sceptics say that migration may boost the economy as a whole, but on a per-head basis the benefits for the natives are less impressive. Migrationwatch, an anti-migration group in Britain, reckons that for the average Briton the inflow of foreigners provides just a few extra pence a week. Roy Beck, an anti-immigrant activist in America, suggests that countries with ageing workforces should try to make their economies less labour-dependent. His country is “addicted to foreign labour”, he says, and more capital investment and more training for locals would reduce the need for foreign workers. But some jobs (such as cleaning or nursing) cannot be sent abroad or mechanised. And even if more natives can be trained to do highly skilled work, shrinking native workforces in many countries could mean economic contraction.

Some of the sceptics' arguments touch raw political nerves, particularly when it comes to the least well-off natives in the host country. In America the share of national income that is going to the poorest has been shrinking in recent decades. Inequality has increased and the real wages of the least skilled have fallen. Circumstantial evidence suggests that foreigners, who typically work in less skilled jobs, might be partly to blame. According to one estimate, they make up around 28% of legal construction workers in America and over a third of maids and housekeepers. If the illegal workers could be counted, the figures would probably be much higher still.

Cheap and cheerful

Do migrants make life worse for poor natives? Studies comparing wages in American cities with and without lots of foreigners suggest that they make little difference to the income of the poorest. George Borjas of Harvard University, who compared wages for different kinds of jobs where migrants most obviously compete with natives, estimated that immigration in America in the two decades to 2000 may have kept wages 3% lower than they would otherwise have been. For the least skilled the difference may

have been as much as 8%. But Mr Borjas also calculated how a rise in the number of migrants might have encouraged the creation of jobs, which reduced the impact on wages.

This tallies with the outcome of natural experiments in recent history, such as the influx of 610,000 Russian Jews into Israel in the early 1990s, the return of 900,000 Frenchmen from Algeria in 1962 or the homecoming of 600,000 Portuguese after the collapse of their empire in Africa in 1974-76. Each time the influx of workers expanded the workforce and wages dropped slightly, but subsequently recovered. Given prolonged immigration, argues Steven Camorata of the Centre for Immigration Studies, the impact is sustained. He thinks that “it's the poorest 10% [of Americans] who seem to lose out, cutting their wages by perhaps 5%.”

Worse, say the sceptics, migration may limit poor natives' chances of moving up to better-paid jobs. With changing economies that reward skills, it is anyway getting harder to move up the ladder from low-wage jobs to better-paid ones. Now migrants, especially those with skills and drive, are making life even harder for the weakest natives.

A second worry is that migrants will put a strain on public services and the tax system. It is in schools, public housing and doctors' surgeries that natives come face to face with migrants and it is often at the local and state level, where responsibility for such services usually lies, that hostility to migrants seems strongest. Local councils in Britain complain that clinics and schools are overloaded and central government is slow to dish out help, and local police in areas with many immigrants blame foreigners for a rise in crime.

In Greece, as new illegal immigrants arrive at remote spots on the border, officials complain that they lack funds for policing and social services. The prefect of Samos laments that “we are given a short bedsheet to cover our body.” In America hostility to migrants is greatest where they have recently been arriving in large numbers, not where their absolute numbers are highest (near the borders or in big cities, such as New York). Several states have passed tough new laws banning illegal migrants from using their public services.

But crowding, although likely to cause resentment, results from the unexpected arrival of those migrants, with bureaucracies taking time to allocate resources to the right places. In itself, it does not prove that migrants are a drag on public services as a whole. Indeed, migrants often make a large contribution to the public purse. When a foreign worker first arrives, usually as a young adult, fully educated and in good health, he makes few demands on schools or clinics. A legal immigrant will pay taxes just like any native; even an illegal one will contribute something (if only through the tax on those bottles of bison grass vodka). If the immigrant stays on (and quite a few do not), the benefits will diminish as he ages, but at least he has given his host country a breathing space.

To complicate matters, highly skilled migrants contribute much more to tax and social-security systems than do less skilled ones. A study in America by the National Research Council suggests that migrants with an education beyond high school contribute an average of $105,000 to the tax coffers over their lifetime. By contrast, the least educated migrants are reckoned to leave the taxman with a $89,000 hole. But migrants as a whole, in the long term and counting the contribution of their children when they grow up and get jobs, are not a drain on public services. For rich countries with ageing workforces in particular, gains from importing the young, the energetic and those willing to take risks comfortably outweigh the costs.

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

The politics of the gun

Jan 3rd 2008
From The Economist print edition

Migration has once again become a touchy political issue

UNTIL recently, politicians who inveighed against immigration could expect support from an angry minority of voters in many Western countries. Some, like Australia's Pauline Hanson, won moments in the limelight and then faded away. Others got closer to political power: in France in 2002 the anti-immigrant Jean-Marie Le Pen reached the run-off stage of the presidential election; Denmark's centre-right government has been kept in office with support from an anti-migrant party; and in Austria in 2000 Jörg Haider's far-right party joined a coalition government. On each occasion this was controversial, but could be explained as a quirk of the electoral system, not a reflection of widespread anti-migrant sentiment.

Today, however, hostility to immigration is becoming mainstream. Britain's prime minister, Gordon Brown, whose Labour government has allowed remarkably high rates of immigration for years, recently called for “British jobs for British workers”, a meaningless slogan previously used by the far-right National Front. The opposition Conservatives' leader, David Cameron, says he wants to see “substantially lower” immigration. Both government and opposition say they will keep out workers from Bulgaria and Romania, along with those from any other new EU members, for as long as possible.

Reuters

Woolly thinking

In France Nicolas Sarkozy campaigned for the presidency in 2007 sounding as hostile to foreigners as Mr Le Pen, and swept to office. He is now proposing immigration policies that have liberals quivering with anger. Most controversially, a new law passed in November will allow DNA testing of immigrants' relatives who apply to come to France under a family reunification programme.

Italian politicians whipped up violence against migrants after the death of a woman in Rome last October, allegedly at the hands of a Romanian Roma (gypsy). Officials ordered the expulsion of Romanians with criminal records and set about bulldozing migrants' camps. Local thugs took that as a cue to beat up foreigners in the streets.

In countries where proportional representation gives a say to small parties, support for anti-immigrant populists has gradually risen. The second-largest grouping in Norway's parliament is the misnamed Progress Party, which wants to discourage the entry of “far-foreigners” (migrants from beyond the Nordic region, especially dark-skinned ones). The right-of-centre People's Party in Switzerland, which had campaigned with a crude poster showing white sheep booting out a black one, got 29% of the vote in elections last October.

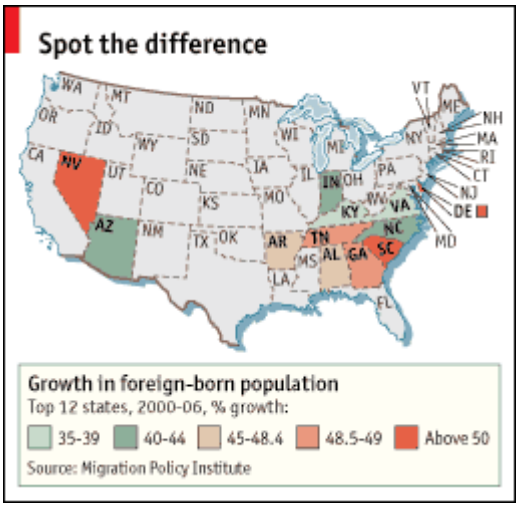
Across the Atlantic, mainstream candidates for the 2008 presidential elections are lining up to talk tough about border controls and cracking down on illegal migrants. The dramatic collapse of an immigration-reform bill in the Senate in June, despite the support of President George Bush and the leaders of both the Democrats and Republicans in both houses of Congress, signalled that many ordinary voters are troubled by high rates of immigration. A coalition of radio hosts and internet activists arranged for opponents of reform to send 1.5m faxes to senators and congressmen in June.

Roy Beck, who heads NumbersUSA, one of the internet activist groups, says that membership of his organisation has grown from just 3,000 active members in 2001 to more than 490,000 today. He also claims an e-mail list of 1.6m sympathisers from across the political spectrum. Some of the anxiety may be explained by worries about economics, language, crime and a general fear of the outside world raised by terrorism. More important, he suggests, is anger about the presence in the country of perhaps 12m illegal immigrants. He wants to see the number reduced by things like deportation, stronger fences and fines for employers who use illegal labour.

The camel's nose

Opponents condemned the Senate reform bill as an amnesty: “It teaches aliens that all they have to do is get in and wait. It is letting the camel's nose into the tent, the rest follows,” says Mr Beck. But the bill would not have been a soft option. It envisaged higher spending on border defences and an obstacle course on the way to legal residence. Applicants for legal status would have had to pay $5,000 and return home to await a decision. Yet the bill damaged the presidential chances of John McCain, a Republican senator who supports reform.

Immigration is likely to prove a divisive factor in some states in the 2008 presidential election. Republican strategists think voters are especially troubled by migration where there have been big new inflows, for example in the south-east (see map). Democrats are divided. Some are anxious not to alienate their traditional and growing support among Latinos and new migrant voters who might help to swing states such as New Mexico, Utah, Nevada and Arizona. But others want to get tough in places like Virginia, a formerly solid Republican stronghold that might be up for grabs, where rapid immigration has provoked anger. For Mr Beck this is an opportunity to push Democrats to take a harder line on immigrants, just as they have done in other policy areas: “To win competitive elections, Democrats now often oppose gun control,” he says. “I want immigration to be an issue like guns.”



Perhaps the surprise is not that American voters are now reacting to high immigration, but that it has taken them so long. The last time the share of foreigners in America's population was anything like as high as now, in 1913 (when it was 15%, including illegals), the public demanded, and eventually got, tough limits on migration that slowed the inflow for decades. Nearly a century on, a similar dramatic clampdown seems unlikely, but hostility could slow the flow of legal migration, and greater efforts will be made to crack down on undocumented migrants.

Yet public hostility to migration should not be overstated. In Spain and Greece, for example, natives seem relatively at ease with a big influx, at least as long as their economies are doing well. For some analysts the backlash against immigration is part of a wider response from hard-up activists who feel that elites do not properly represent their interests. But many people in host countries also see the gains from migration—and indeed some of them try it out for themselves. Some 5.5m British nationals, for example, currently live abroad, many in Spain, Australia and Greece. That amounts to nearly a tenth of the population back home, putting Britain on a par with Mexico as an exporter of people.

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

Keep out

Jan 3rd 2008
From The Economist print edition

Voters like the idea of tougher borders, but the cost is high and the benefits are limited

ILLEGAL migrants risk their lives to better themselves. Europeans are more aware of Africans drowning in the Mediterranean in the summer holiday season, but boats are wrecked all year round. In mid-December 51 migrants drowned off the Greek island of Samos, one of the worst such incidents in recent memory. Mexicans dying in Arizona's desert rarely make headlines any more. And not a lot is heard about the 600,000 people a year, perhaps more, who the UN says are trafficked and often forced into prostitution. Bonded labour, too, is dismally common.

AFP

India's way with a fence

Europe and America are both making big efforts to control their southern borders. The EU's system, run by its member countries, is called Frontex. In 2006 most sea-borne African migrants washed up on the Canaries; in 2007 it was the turn of the central Mediterranean, especially Malta and Italy. In the coming year watch Greece and Cyprus, where a trickle of boat people from Egypt and Turkey may turn into a flood. With some 100 patrol craft, plus spotter planes, land-based radar and other technology, Frontex does seem to be making it more difficult to get in.

A trip with a night patrol on a Greek coastguard vessel from the island of Samos shows how. The boat, with tinted and bullet-proofed windows, accelerates above 30 knots as a searchlight illuminates a 350-metre radius and a radar scans the nearby Turkish coast. Six guards aboard, some brandishing M4 rifles, peer into the darkness. Fishing and tourist craft appear in the gloom. Spotting a raftload of immigrants would be easy, though those on small rubber dinghies or swimming with snorkels and flippers would be harder to find. The boat is kept busy. In the 24 hours before this patrol several dozen illegal migrants were plucked from the sea and the rocky shore and taken to a detention centre in Samos. Greece has 30 such boats, plus four aeroplanes for air-sea surveillance.

Even the bright and well-educated risk misery. An Ethiopian law student in Greece tells of his wretched trip to Europe: he bribed Ethiopian border officials, hid in a truck carrying coffee in Sudan, endured seven days in the Sahara, spent months in a grim camp in Libya, suffered a terrifying voyage across the Mediterranean, hitched a lift in a frozen-meat lorry in Turkey, scavenged in a forest for days and feared he would drown in a fishing boat that carried him into the EU. He paid several thousand dollars for the journey and ended up locked in a cramped and stinking warehouse on the island of Samos, crammed with asylum-seekers. Dejected, he says he wants to go home.

America's frontier with Mexico has even more gear, gadgets and manpower on display. Unmanned Predator Bee drones float at 12,000 feet, helping to guide officers in bulletproof helicopters, in jeeps, on

horseback, on mountain bikes and on all-terrain buggies towards any would-be migrants. Seismic sensors catch footfalls, magnetic ones notice cars, infra-red beams are useful for tunnels. Some 18,000 officers man the border crossings and a further 15,000 (due to rise to 18,000 by the end of 2008) patrol in-between them.

Perhaps the best way to look at the border is from the air. As an A-star helicopter lurches into the late-morning haze above San Ysidro, southern California, it becomes obvious that crossing from Tijuana on the Mexican side is no longer easy. Running a dozen miles inland from the Pacific ocean is a wide double fence, one to block cars, the other to stop pedestrians. Watchtowers and surveillance cameras, tall wire mesh and lots of border guards line the frontier. Occasionally migrants still scamper over the fence with improvised ladders. From the air a series of concrete paths becomes apparent, running crossways. These are tunnels, regularly dug from the southern side, regularly filled in again by the border patrol. Some have stretched for half a mile, complete with lighting, ventilation and a track for rolling carts.

After 12 miles the fence becomes a single line, and two miles after that it stops. From here on the hills rise, providing a natural barrier. Now the “virtual fence” takes over—drones, helicopters, sensors. By the end of 2008 some 670 miles of fencing will be erected along the 1,969-mile border. In many places the fence is made of Vietnam-era concrete slabs designed for runways and turned on their sides.

Europe and America are not alone in their taste for well-policed borders. South Africa, deluged by migrants from north of the Limpopo river, is trying to enforce its own. In 2007 it reportedly deported an average of 4,000 people a week. India is finishing an iron barrier 2.5 metres high along the 4,100km (2,500 mile) boundary with Bangladesh, at a cost of more than $1 billion, to mark a fuzzy frontier and keep out poor Bangladeshis.

Are the barriers doing any good? The answer depends on your objectives. With Frontex in Europe, for example, the craft, for all their guns and scary looks, sometimes have to act as rescue boats. It is said that some migrants, once they have arrived in EU waters, phone ahead to get someone to collect them, confident that they will not be turned away. To make sure, they sometimes slash their dinghy with a knife as the patrol boat arrives.

In America, look down from the helicopter at the spot where the fence stops. Here the paths begin: thousands of jagged tracks in the scrubland, stretching north to south, worn into the rust-coloured earth by millions of human footsteps. The migrants have a simple way of dealing with the technology: they walk around the fence. Only some are then stopped.

Even those detained at the border have every reason to expect to make it across eventually. On the day your correspondent visited, two men had been chased, tackled, dragged through a bush and handcuffed in the back of a border patrol car. They were taken to a processing centre in the nearby town of Nogales, their fingerprints scanned and checked against a database of criminals. Those not on a wanted list are usually deported within 24 hours. But many will turn round and try again.

In Europe an even larger proportion of those stopped at the borders end up staying. Many will attempt to claim asylum, saying they are escaping from a war. Those who are not able to convince officials that they are refugees may still be able to stay if the EU lacks a deportation agreement with their home country. If deportation is impossible, they are released after a time and melt away.

Don't even think about it

No doubt the borders are becoming harder to cross. Franco Frattini, Europe's commissioner for justice and home affairs, is delighted with Frontex. The first eight months of 2007 showed 72% fewer migrants crossing to the Canaries and 41% fewer in the central Mediterranean than the year before. “It shows it is possible to cut because of the impact of deterrence,” he says. America's fence-builders are also pleased. Official figures released in November showed a one-fifth decline in cross-border apprehensions, from just over 1m in fiscal 2006 to 858,000 in fiscal 2007, the lowest number in five years.

The high prices charged by people-smugglers reflect the growing difficulty, as well as the relative risk and discomfort of the journey (see table 3). The cheapest way to reach San Diego is to curl up in the boot of a willing driver's car and hope that sniffer dogs will not find you, or to use a fake or stolen passport. Tunnels and guided hikes are more pricey. Ten years ago a trip from

Mexico to Phoenix, Arizona, cost $250-500, but now it will be more like $3,000. If you are an “OTM” (Other Than Mexican, in the language of the guards), rates are higher.

The price of safety and comfort 3

Cost of being smuggled over borders

Selected routes

	Year	Price, $
Mexico-Nogales, AZ	2007	1,000
Mexico-Phoenix, AZ	2007	2,500-3,000
Mexico-San Diego, CA	2007	1,500-3,000
Morocco-Spain *(lorry)*	2007	5,000-6,000
Morocco-Spain *(boat)*	2007	1,000-1,500
Turkey-Samos, Greece *(boat)*	2007	1,000
Horn of Africa-Yemen	2007	100-150
China-New York *(boat)*	2005	60,000

Sources: *The Economist*; Moisés Naim, “Illicit”

Fences are popular with those who live on the right side of them. The first barriers in San Ysidro went up in the early 1990s as part of “Operation Gatekeeper”, helping to end chaos and violence. Huge numbers of illegal migrants used to gather on the border, then run across, thousands at a time, overwhelming border guards. Today shopping malls, warehouses and housing fill an area that was once scrubland too dangerous for the police to patrol. Land and property prices have soared. But although some illegal migrants are deterred by fences, the recent drop in apprehensions in America may have as much to do with the housing-market slump, which means fewer are drawn north in the first place.

Other illegal migrants are diverted to new and more dangerous routes. Thus African boat people endure longer trips in wilder seas. More Mexicans strike out over those natural barriers. With inadequate water, high-caffeine drinks, garlic to ward off rattlesnakes and a goat's foot for luck, the ill-prepared are dying in alarming numbers in Arizona's desert. Since 2000, in the sector around Tucson alone, some 1,137 bodies have been found. There are probably many more still out there.

Nor does it seem much to celebrate that job-seekers are handing more of their savings to criminals, such as the Arellano Felix cartel that controls much of the Mexican side of the California border. Some fund their crossings by becoming criminals themselves, either as guides for other migrants or as drug mules. They are also carrying knives and guns more often.

The bigger concern is that fences might in fact push up the total number of illegal migrants inside any given rich country. After all, the more costly and dangerous it is to cross, the less people will feel like leaving. Migrants quite often return home for a while—but only if they know it will be relatively easy to get back in. The tougher the border, the more incentive migrants have to stay and perhaps to get their families to join them instead.

One migration expert in Washington, DC, says that higher walls will keep people in as well as out: “The more that is spent on the border, the more illegal migrants stay here. Our politicians are not stupid. They know that walls do not stop people. It is a loser's game.” That argument is well understood in Europe, too. One official dealing with immigration policy in Brussels says: “It is playing King Canute to say that you can stop illegal migration. It has never worked. It is no easier to stop than prostitution.” But, on both sides of the Atlantic, tough borders are popular with voters, so they are here to stay.

They may become more effective if combined with other high-tech enforcement. The EU has a pan-continental fingerprint database for asylum-seekers called Eurodac which lets officials track those who have been detained. Britain is introducing identity cards for foreigners, including biometric information, and in France Mr Sarkozy will now go ahead with DNA testing of supposed blood relatives. In America every detained illegal immigrant has his fingerprints recorded through a system called IAFIS, which is linked to the FBI and other crime databases.

American employers are also facing tougher checks on whether they use undocumented labour. An electronic database, E-verify, lets registered employers check instantly whether workers are authorised to be in the country. And more employers who break the law are facing arrests and fines: 863 arrests were made in 2007, against only 25 five years earlier.

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

Send me a number

Jan 3rd 2008
From The Economist print edition

Migrants' remittances help ease poverty back home, but they are not a cure-all

SEVEN years into the century a remarkable figure was produced. Foreigners in America sent home $275m in a single year, a total not far short of the value of all the gold mined in America. They used 2,625 money agents to do so, mostly through grocers, bakers and other small immigrant shops. New York alone had 500, Chicago 75 and Pittsburgh 50. The *New York Times* gasped at the numbers a little later, in 1910, and noted that migrants were shunning bigger banks as “the Italian and the Magyar and the Croat and the Slovak [are] simple, ignorant foreigners”.

Flying money in the Seven Sisters Road

The sum of $275m in 1907 was $6.2 billion in today's money. That sounds a lot until you look at the current figures, which are probably in the region of $240 billion-300 billion. Neglected for some time by academics and policymakers, remittances have recently been rediscovered and have become the darling of many development experts.

Because of fears after September 11th 2001 that terrorists might be using informal money transfers to fund their activities, agents had to register and submit to closer monitoring. For a flavour of what the Arabs call *hawala* and the Chinese *fei ch'ien*, or flying money, try north London's Seven Sisters Road. With 105 different ethnic groups, north London is thought to be Britain's most diverse area, and at first glance most of the 2,700 remittance agents registered in the country as a whole seem to congregate here. “JN” promises Jamaicans that “As yu quint it reach” (once sent, your money is there). “Giros sur” specialises in Brazil, Chile and Venezuela; “Maggie Gold” serves Ghana. “Homeboy, Instant transfer” is doing good business.

The agents are wedged between *halal* butchers, Chinese herb shops, Greek dry-cleaners and bustling grocers selling green bananas, cassava and sweet potatoes. Pavements are crowded with shoppers and crooning preachers. A sign in one shop, hand-written in Luganda, invites “all our people, come all. We send money to Uganda at a good rate, here in the internet café of the Somalis.” Another agent, with a line of phone booths, has a dozen clocks on the wall, showing the time in places like Sebastopol, Addis Ababa, Kinshasa, Johannesburg and New Delhi.

According to the clock in London, it is 3pm in Kampala, Uganda's capital, when Julius Mucunguzi hands over £20 intended for his sister. His receipt says she will be able to collect 64,800 Ugandan shillings from the firm's partner office in downtown Kampala. There is no fee, she can get at the cash almost immediately and the exchange rate is reasonable (though the agent will make a profit on it). Mr Mucunguzi sends her a text message with a code that she will use to collect the money. These texts are now treasured back home. When friends and relatives need help, they plead: “Send me a number!”

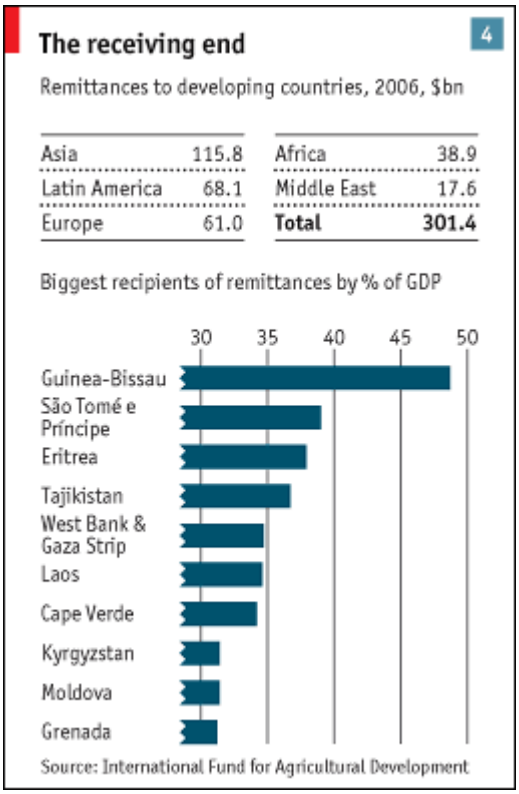
The mechanism is relatively simple. The money agent needs an office in London, say, to collect the cash

and take details of the person sending it, and another in the destination country to hand over the money. The internet provides a safe and easy means of sending the code, specifying the amount and checking rates. The agent may invest the money he has been paid in London in some other business, or buy goods to be exported for sale in, say, Uganda (secondhand cars are popular), where the profits are used to pay salaries and provide the cash to be paid out locally. Trust is vital to this business, and reputations are made, and spread, by word of mouth among émigrés. Most agents are registered, but a few illicit ones drum up trade by offering good rates. Some even lend cash for the migrant to send, with repayment required only on confirmation that it has been collected.

Banks find it hard to compete with this kind of personal service. A Bangladeshi in Ireland complains that it takes two weeks to send money home through the bank, compared with half an hour via Western Union. Banks may also lack the necessary infrastructure, and may feel that frequent small transfers are not worthwhile.

For most poor countries remittances are more valuable than aid. For many they provide more than aid and foreign direct investment combined. According to the World Bank's Dilip Ratha, an expert on remittances, small countries gain most: migrants' cash accounts for 27% of Tonga's GDP, he estimates, and 21% of Haiti's (see chart 4 for other examples where it matters even more).

The total of global flows is disputed. The World Bank talks of $240 billion a year whereas a recent report by IFAD, an agriculture arm of the UN, claimed that $300 billion went to poor countries in 2006. Allowing for goods in kind and cash carried by travellers, perhaps one in ten people on the planet gains from remittances.



Good as gold

Remittances have many virtues. Sent directly to families, money cannot be stolen or frittered away by middlemen in aid agencies or governments. Flows are less volatile than aid or investment, and can be stepped up quickly if the need arises. For example, South-East Asians abroad sent extra cash home after the tsunami in 2004. Migrants often feel morally obliged to send money back. A survey of Mexicans in America in 2007, by the Inter-American Bank, found that three-quarters of them earned less than $20,000, yet on average they sent home $3,550 a year. And not just for a short while: Kathleen Newland of the Migration Policy Institute in Washington, DC, points to a study of 9,000 African doctors in America who sent home an average of $20,000 a year, some of them after 20 years away from home.

Mr Mucunguzi in London certainly does his bit for Uganda, sending home several hundred pounds each month. Some of this pays for his grandfather to drink a litre of milk each day and for relatives' hospital bills. Some goes on education. He is “100% sure” that his sisters stayed on at school in Kampala only because of his cash. His parents sold land to fund his own education, so now he is building them a big new house. He is also investing in property, buying plots and houses in Kampala and in his home town, Kabale. Next he may set up a business, building a commercial centre and internet café in Kabale.

His experience is typical. IFAD thinks that perhaps 90% of remittances to poor countries go on food, clothes, housing, education and health. A World Bank study in 2007, reviewing evidence from 115 poor countries in 2003, found that when official international remittances rose by 10%, the share of people living on less than $1 a day fell by 3.5%. Countries such as Uganda, Bangladesh, Ghana and Nepal saw the biggest gains. Babies had a higher birth weight and families spent more on education, with girls thought to benefit especially. Consumption creates jobs too, for example in housing. Morocco's minister for émigrés, Mohammed Ameur, explains the advantages: “The impact is decisive, enormous, we have a construction boom across the country. This is an important safeguard against poverty and helps to modernise our rural society.”

Even so, remittances do not necessarily help those most in need. The biggest recipients are in fact middle-income countries; the most destitute places are usually remote from rich ones and send few migrants abroad. And recipient families are rarely the poorest within a given country, so remittances may

end up in the hands of middle-income earners with few knock-on benefits for poorer neighbours.

Remittance money flows along some curious routes: Pakistan receives some NKr350m ($5.7m) each year from migrants in Norway, with more perhaps carried by travellers. India collects $24 billion a year, more than any other country, yet its diaspora has been reluctant to invest in the home country because of corruption, red tape and tricky finance. As with aid, oil revenues and other unearned wealth, a flow of cash risks making recipients passive and dependent. The most extreme possibility is that remittances may indirectly help to ease domestic pressure on awful regimes. IFAD says that in 2006 Zimbabwe got $361m in cash transfers, Cuba $983m and North Korea a whopping $1.8 billion.

At least more governments are thinking about using remittances to step up investment. India now offers special incentives to PIOs (people of Indian origin) to invest. Ethiopia, too, is tapping its diaspora in America, making investment easy. Other countries could do more to use the capital being sent home. Morocco should encourage rural investment, says Hein de Haas, a researcher at Oxford University. Farmers lack confidence in property rights, so they spend remittances on housing, not on irrigation. Mexico typically sees more than $20 billion a year flow across the Rio Grande, yet only a quarter of the start-up capital for small businesses in its towns and cities is drawn from remittances.

Wisely, governments in recipient countries have held off taxing the flows of cash, which would be a sure way to make them dry up. In the financial sector, remittances are an opportunity to extend banking services to more of the unbanked (who are not always the poorest) to encourage savings, insurance and loans. And where the cost of sending remittances is high, more competition could cut prices. Britain's government has set up a website where rival remittance services can be compared. Where there is plenty of competition—from rich to middle-income or poor countries—the cost tends to be low. But sending money from one middle-income country to another can be painfully expensive.

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

You don't have to be rich

Jan 3rd 2008
From The Economist print edition

Developing countries attract migrants too

THE complaints sound familiar. Foreigners steal our jobs. Aliens cause a rise in crime. The corrupt interior ministry cannot cope. The border is ineffective and deporting illegal migrants does not work: removed by train, they return on foot. Outsiders put a strain on housing, especially for the poor, and on hospitals and schools. But employers do not care: farmers want cheap labour, and rich families need skilful foreign gardeners and housekeepers.

Reuters

Turfed out of Little London

Residents of Soweto, or other urban areas in South Africa, are likely to grumble about foreigners in the same way as in rich countries. The *makwerekwere*, as African foreigners are insultingly known, are attracted by South Africa's relative wealth. Some Tanzanians talk longingly of Johannesburg as “Little London”. One in four Little Londoners may now be a foreigner. Zimbabwean teachers, forced out by hunger and repression, work as security guards and shop assistants. Congolese lawyers toil as waiters and chefs.

In 2005 two World Bank researchers, Mr Ratha and William Shaw, estimated that two in five migrants—about 78m people—were outside rich countries. But who in the poor world is counting? South Africa's government does not know how many foreigners it has (2m? 5m? more?). Mexico, India or Turkey cannot be sure either. Total numbers are skewed by those displaced by the collapse of the Soviet Union or who became de facto migrants when borders moved.

Ms Newland of the Migration Policy Institute in Washington, DC, says the flows between poor and mid-income countries are huge but “desperately understudied”. One reason why outsiders pay little attention is that most poor migrants do not move far. Roughly half of all South-East Asian migrants are thought to have remained in the neighbourhood, and nearly two-thirds of migrants from eastern Europe and Central Asia have stayed in their own region. Nearly 70% of migrants from sub-Saharan Africa remain on their continent. West African countries do not limit immigration from their neighbours, so lots of people cross borders, for example from Ghana to oil-rich Nigeria.

Some middle-income countries, such as Morocco, Mexico, Turkey and Libya, are well-trodden transit routes with migrant populations of their own. A senior civil servant in Morocco laments that his country is “between the hammer and the anvil” of Africa and Europe. Others, like India, Russia, South Africa and Argentina, are destinations in their own right. With all this come the same opportunities and threats as in the rich world. Chile imports doctors and maids from Peru, raising worries about a brain drain. Zambians fret about an invasion by Chinese, whose numbers in Africa are said to be between 80,000 to 400,000,

many in oil-rich countries such as Sudan, Nigeria and Angola.

Remittances from one low-income country to another probably help to cut poverty. A 2006 study of 4,700 households by the Southern African Migration Project found that 40% of Zimbabwean households received some money from this source. How much is hard to measure, but a World Bank estimate for 2006 gives a range for remittances among poor countries of $17 billion-55 billion.

Some middle-income countries are extraordinarily welcoming. Venezuela, awash with oil revenues, even allows Colombians to use its social-welfare system. Argentina has lifted most restrictions on immigration from South America, again guaranteeing access to public health and education, even for illegal migrants. But many other countries show signs of xenophobia. On one occasion a newspaper in Morocco gave warning that “black locusts”—African migrants—were invading. Russian authorities, especially in Moscow, regularly throw out traders from Georgia and elsewhere in the Caucasus. Libya occasionally expels African migrants.

Many poor people are drawn to somewhat less poor countries in the hope of finding work, just as they are to rich countries. But with war, repression and economic collapse, push factors are much stronger in the poor world. The invasion of Iraq in 2003, and the violence since, has uprooted more than 4m Iraqis. Some 95% of them have remained in the Middle East, including 2m in hard-pressed Jordan and Syria. Sweden, with an admirable history of taking in refugees, has welcomed 23,600 Iraqis, but few other rich countries have followed suit. Some of the displaced are beginning to return home. Since the Taliban were booted from power in 2001, Afghanistan has seen the voluntary return of at least 3.2m people from Pakistan, Iran and elsewhere.

Climate of fear

Could a changing climate cause similarly big ebbs and flows? Scientists agree that average temperatures are likely to rise significantly by the end of this century. Rainfall patterns are already shifting. Those in marginal areas, for example on the edges of deserts, will suffer most, along with those in countries with the least resources to adapt. The sea is also rising, which might mean floods on vulnerable coasts. Some 12% of Africa's urban population, and 18% of Asia's, live in low-lying coastal zones and may be exposed to extreme weather or floods. The Intergovernmental Panel on Climate Change suggested in 2007 that millions may face water shortages, hunger and flooding as a result of climate shifts. Some would migrate, although probably over a period of time.

Environmental change has already set off some migration. Because the Sahel region gets much less rain than it did a century ago, farmers in Mali are moving to the cities. According to the UN Environment Programme, over the past four decades the desert in Sudan has crept south by about 100km and forests have disappeared. Rainfall in north Darfur, in Sudan, has dropped by a third over the past 80 years.

All this has displaced people and, some believe, encouraged war. Morocco's government is anxious about it. “There is a direct impact on migration. You see people leaving sub-Saharan Africa in search of more habitable land,” says Mr Ameur, the minister for Moroccans abroad. Abdelhay Moudden, a migration expert in Rabat, suggests that the first to leave may be struggling farmers: “If the urban economy cannot absorb them, then it may also push international migration.”

A 2005 report by the Institute for Environment and Human Security in Bonn suggested that rising seas and extreme weather, among other things, could uproot 150m people by 2050. Ms Newland of the Migration Policy Institute cautions against talking up the figures, but thinks that if drought and rising temperatures cause crop yields to fall in, say, the Sahel, they will probably encourage migration. If climate change were to cause wars or spread disease, that could compound the effects. Another reason, then, to switch to low-energy light bulbs.

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

Circulate or integrate?

Jan 3rd 2008
From The Economist print edition

A choice of migration policies

THOSE setting migration policy in rich countries face an almost impossible task. The demands of demography and economics—shrinking and ageing workforces, a growing shortage of people to fill jobs requiring both high and low skills, and increasingly flexible and open economies—all point to more migration. Moreover, within the European Union workers from the 12 countries that have joined in the past few years will soon have the legal right to live and work in any part of the union. On the other hand, voters in many rich countries seem increasingly hostile to immigration, which suggests that politicians may find it more and more difficult to allow immigration to continue at its current high level.

AFP

Work is here, but where is home?

If only there were some means of getting all the benefits of migration but none of the costs. That is the thinking behind the latest solution now being promoted: circular migration. Europe's commissioner for justice and home affairs, Franco Frattini, wants to see more temporary migrants in the EU. For the highly skilled, he suggests a blue card (similar to America's green one) to ease the temporary entry of professionals and their families into Europe. Foreign workers with the most skills make up just 1.7% of the workforce, about half the rate in America and far less than in Canada or Australia, and competition for them is getting more intense as some of the brightest head to China and other parts of Asia. A blue card would at least make it clear to migrant professionals that they would be welcome. On the other hand, highly skilled workers go in search of dynamic economies, along with the high pay and bright careers they offer, and a blue card would do nothing to bring more dynamism to Europe.

What of the less skilled? Mr Frattini points to a pilot project in Spain over the past two years in which Moroccans—especially women—have been brought in to do specific jobs on farms and in hotels for a few months at a time and then sent home again. Contracts are drawn up beforehand, travel is part-funded by the EU, everything is above board, and so far every migrant has gone back as agreed. As a result, 10,000 Moroccan workers did not have to run the risk of taking a *patera* across the Strait of Gibraltar. They were able to send remittances home but put no strain on Spain's public services. Mr Frattini wants to launch another pilot programme in his native Italy, where southern farmers might recruit workers from Egypt or Tunisia. Moldova and Ukraine want to get involved in similar schemes.

A new kind of Gastarbeiter...

If the projects work (one in Corsica was less successful), Mr Frattini would like to scale them up, with member countries eventually setting import quotas for foreign labour. The EU is planning to establish job centres in north Africa, beginning with one in Mali, to offer a legal route to jobs in Europe, and also

provide some language training.

But this part of what Mr Frattini and others call circular migration has been tried before and seems unlikely to bring the hoped-for benefits. Germany's *Gastarbeiter* scheme began in 1955, drawing workers first from southern Europe and north Africa and then Turkey. Something similar was done in France and the Netherlands, mostly with workers from north Africa. America imported Mexican farm labourers under its Bracero programme.

The trouble is that such a dirigiste design is not well suited to today's liberal democracies and their flexible labour markets. And unless schemes are tightly regulated and the exit of workers is enforced by law, everybody has an interest in keeping the supposedly termporary workers in place. Employers would much prefer not to have to train new people every six months, and workers want to keep their jobs or move on to better ones. Many of the guest workers who arrived in northern Europe from Turkey and north Africa in the 1960s and 1970s never left, and eventually brought their families to live with them too. The old joke that there is nothing so permanent as a temporary migrant has more than a grain of truth in it.

It might be possible to create financial incentives for migrants to leave at the end of their contract period. Co-operation between the governments of the host and the sending countries would be essential, says Mr Frattini. And migrants could be policed more tightly with the aid of new technology: ID cards, databases with biometric details, systems like E-verify in America that allow employers to check whether workers are authorised to be in the country. Proponents of circular migration admit that it would entail a loss of privacy.

The biggest problem, though, is that people who expect to be packed off home after six months will be seen as second-class residents, and will have less incentive to integrate with their hosts. Why learn the language or adopt local habits and values for just a few months? Locals, for their part, are likely to view temporary labourers with the same sort of hostility as longer-term immigrants.

When migration is made legal and easy, many migrants choose to go home after a year or two. Easily crossed borders allow people to become what some researchers call “pendulum migrants”, those who split their year between two different countries. This is already a well-established habit in rich countries. Growing numbers of wealthy Germans, Britons or Nordics spend parts of the year somewhere sunny and then go home again. Perhaps more of this sort of movement could be encouraged, with rich countries offering workers multi-entry visas valid for several years at a time.

Yet any sort of circular migration brings challenges of integration. Faster movements of people, combined with technology—cable television piping entertainment from the sending country, cheap phone and video calls back home—slow the rate at which migrants adopt their host country's language, values and identity. Migration, suggests Mr Moudden in Rabat, “is changing our whole understanding of citizenship, of the nation”.

In the past a third-generation migrant, for example in America, would have been expected to have shed much of his grandparents' identity. Academics reckoned that a second-generation migrant would be fluent in his host country's language but would use his mother tongue at home. By the third generation descendents of migrants had usually swapped to English alone. That pattern may be changing as migrants feel loyalty to more than one country. Moroccans in Europe, for example, even third- and fourth-generation ones, are encouraged by the government in Rabat to identify with the north African country. All are granted irrevocable Moroccan citizenship under the constitution, even as European countries, notably the Netherlands, are turning against the idea of their nationals holding dual citizenship. The incentives for Morocco are clear: it wants citizens abroad to remit funds, to invest back home and to support its political ambitions. “We look at how the Jews in America do it, how that community has the ability to maintain ties with Israel and be good Americans, that is how we want it,” says Mr Moudden.

...and of citizenship

The idea of dual identities may be unsettling for some—in France, for example, all citizens are considered French—but governments of sending countries increasingly want close ties with their émigrés. Hyphenated migrants like Italian-Americans and African-Americans may become more widespread in other countries too. As India, China, Ethiopia and others grow more intent on tapping their diaspora for remittances and other support, migrants, even several generations on, may come under greater pressure

to retain some of their old identity.

Conversely, the governments of receiving countries, especially in Europe, are doing far more to encourage migrants to absorb the values and habits of their host societies, giving up on an idea of multiculturalism that left ethnic groups free to preserve their languages and habits as they wished. In Britain a newly formed Justice Ministry is planning to draw up a statement of British values to which all residents might be expected to subscribe. In Britain, the Netherlands, Australia and many other countries, those applying for citizenship are expected to demonstrate their knowledge of their host society by passing an exam. France's Mr Sarkozy wants to inculcate French values into all French nationals.

When France takes up the rotating presidency of the EU in 2008 Mr Sarkozy plans to launch a campaign for the promotion of “European values”. More countries will push the idea of a “contract for citizenship”, suggests Gregory Maniatis, a migration expert in New York, under which migrants will have to learn the language and way of life of their host country.

These rival pressures on migrants' identity are likely to get stronger and more complex as patterns of migration change, with people moving greater distances and settling among different ethnic, religious and cultural groups. Danes in Sweden or Albanians in Greece have little trouble integrating into the relatively familiar societies next door. Even Poles in Ireland prosper, perhaps thanks to the incomers' good standard of education and skill and the shared Catholic faith. But Iraqis in Sweden, Somalis in Canada or Pakistanis in Norway typically find integration harder. Migrants who preserve—or even develop for the first time, perhaps as second-generation immigrants—a strong religious sense that cuts across any national loyalty may be the hardest of all to assimilate in broadly secular Western societies.

The touchiest question these days is how best to help Muslims to integrate into Western countries. Providing a decent education, offering language training, enforcing anti-discrimination laws to ensure access to jobs and discouraging ghettos are all tried and trusted methods to help any migrant to feel more at home. The lesson from America, Britain and elsewhere is that the more highly skilled people settle in very quickly and that many of the lower-skilled also catch up eventually.

But tackling an extremist minority, or its sympathisers, is quite another matter. Specific initiatives to encourage better co-operation with moderate Muslim countries such as Morocco, which are as worried as host countries in the West that their diaspora could become radicalised, may be worth trying. Deploying moderate *imams* and Muslim scholars to counter extremist propaganda within some Islamic migrant communities might also be helpful. Taking care that anti-terrorist efforts do not vilify Muslims in Western countries is self-evidently sensible.

Yet it is worth remembering that over the years democracies on both sides of the Atlantic have managed to absorb large numbers of migrants from diverse backgrounds. Robert Putnam, an academic at Harvard, is worried that greater diversity in rich countries may mean a short-term decline in what he calls social capital—trust, co-operation, shared values—within those countries. He points to research in America showing that greater diversity—usually in areas with high rates of immigration—is often associated with more fear of crime and other social problems.

But Mr Putnam also points to the experience of once divided institutions in America, such as the army, where people of different backgrounds, with some encouragement, have learned to integrate well. And he considers the example of immigrants who came to America a century ago, including those of different religious beliefs, such as Russian Jews and Polish Catholics, who went on to share social capital in the same way as anybody else.

There is evidence that foreigners are still following that model. For example, a survey in America by the Pew Hispanic Centre shows that the vast majority (94%) of Hispanic adults in the country who were born of immigrant parents claim to be fluent English speakers. It may take a few decades for rich countries to integrate newcomers, but history suggests that it will happen before too long.

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

The long term

Jan 3rd 2008
From The Economist print edition

Too much or not enough?

WHAT will happen to global migration in the next half-century? Whether they think migration is good or bad, experts agree on one thing: that governments are generally failing, or not even trying, to manage it properly. Some would like to see the establishment of a new international body, along the lines of the World Trade Organisation, or give more powers to the UN's existing International Organisation for Migration. Others hope to decouple migration policy from party politics. In America, hostility to migrants has been making serious policy reform impossible for nearly two decades.

AP

Available now: young risk-takers, willing to travel, lots of get-up-and-go

“We can't touch a comma without killing each other,” complains Demetrios Papademetriou of the Migration Policy Institute in Washington, DC. “The only discretion we have is whether to enforce the law or not.” There is a lot of nasty rhetoric about illegal migrants, but politicians also lobby for cheap migrant workers in their constituencies.

Those who think about the longer term agree that some of the assumptions of recent decades need revisiting. There is more scepticism, for example, that family reunification benefits host countries. But not many of them weigh up the most extreme scenarios: how would the world fare if either the flow of migrants were to slow down radically or, conversely, there were no legal limits on migration at all?

Rates of migration might slow if countries were to slam their doors shut, or because the supply of migrants declines. If political pressure became strong enough, rich countries might decide to squeeze foreign labour whatever the economic price. That is what happened in America just before the first world war. Within a few years Congress, overturning a veto by President Woodrow Wilson, passed laws that sharply cut the inflow of migrants. Immigration slumped and stayed low until the 1960s. Other rich countries also slapped on restrictions.

If something similar happened today, there might be some benefits. For example, it might become easier to integrate existing immigrant communities. Perhaps, as Japan appears to be hoping, more jobs could be carried out by machines. Possibly, ageing natives in rich countries might do more of the jobs that they now shun. Such countries would probably have to lower their expectations of economic growth.

It is also possible that the steady supply of workers from nearby countries could one day dry up. Patterns of migration will certainly change. Note how quickly countries switch from exporting to importing labour as they develop. Until recently Spain and other parts of southern Europe were sending lots of workers abroad, but demographic and economic changes have made them into net labour importers. Portugal now attracts Ukrainians, Spain draws in Romanians and Moroccans.

In the coming decades, the next lot of emigration countries will grow richer and older too. The average age in Ukraine is already 40 and in Poland 38, not very different from the west European average. Even Moroccans and Mexicans are, on average, already in their mid-20s. With rapid growth in their own economies, wages back home rise too, and the supply of emigrants will eventually drop. Those countries, in turn, will then start to attract more workers from farther away. For the foreseeable future there will always be another pool in which to fish for workers, but that will mean drawing migrants from more and more distant cultures.

The other scenario, of a world wide open to migration, is less likely but would be more beneficial. Some regions—most of the EU, much of west Africa—do have unrestricted movement, and seem to be faring well with it.

Philippe Legrain (formerly a writer on *The Economist*), in his recent book, "Immigrants: Your Country Needs Them", argues that stopping people from migrating is both "morally wrong and economically stupid". Lant Pritchett, of the Kennedy School of Government at Harvard, argues that faster global migration would bring huge gains for poor countries, exceeding the combined rewards offered by foreign aid, debt relief and trade reforms proposed under the Doha development round.

How to make the world richer

If labour flowed without restraint, social and political systems would be disrupted on a huge scale, but global poverty would be vastly relieved. A study in 1984 suggested that if the flow of labour were freed completely, the size of the world economy would double. Another study in 2003 more modestly put the gains to world GDP at nearly 10%. An estimate in 2004 of the impact of letting 16m more migrants into OECD economies suggested a global gain of $156 billion, or about 0.6% of world GDP—not a large rise, but again the poor would be winners.

Opening borders to let many more job-seekers go where they please would be radical, but it would not mean allowing criminals, drug-smugglers or terrorists to move freely between countries. And there are many ways of doing it. Holger Kolb, a migration expert, has suggested allowing unlimited numbers of foreign workers into rich countries but charging them a fee on arrival. That would cut out the people-smugglers, and the revenues could help to pay for public services. Another option would be to charge foreign workers higher rates of tax than locals. Such ideas should be explored.

The moral case for migration is incontrovertible: it greatly lessens human misery. The cultural gains from migrants are usually obvious, too. But the economic case needs to be made more forcefully. Over the past few decades the freer movement of capital and traded goods has brought enormous gains to human welfare. Similar benefits can be expected from a freer flow of people. Policymakers in rich countries must make those benefits more transparent. They need to persuade voters that natives and migrants alike gain as larger workforces speed up economic growth; and that foreigners not only fill jobs but act as entrepreneurs who in turn create jobs and wealth. In the longer term, migrants will be essential to supplement shrinking native workforces. The question currently being asked in the rich world—whether immigration rates are unsustainably high—may be the wrong one. Perhaps they are not nearly high enough.

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

Sources and acknowledgments

Jan 3rd 2008
From The Economist print edition

In addition to those mentioned in the text, the author would like to thank: Alan Winters of the World Bank; Peter Sutherland of the Global Forum on Migration and Development; Sarah Wilson of Christian Aid; congressman Ed Perlmutter of Colorado; William Somerville, Doris Meissner, Margie McHugh and Michael Fix of the Migration Policy Institute; Michael Friel, Vince Bond, Dove Haber and Richard Smith of the US Border Patrol; Jorgen Carling of the International Peace Research Institute, Oslo; Louka Katseli, formerly of the OECD; Binyamin Smith (not his real name) of Ethiopia; Abraham Hailezgi of Somalia; Panagiotis Tsiafidis and Stavridopoulos Thrasivoulos of Greece; Alicia St Leger of Cobh, Ireland; Mohammed Benjaber, Youssef Amrani, Amina Bouayach, Fadlallah Mohammed Fellat and Fehri Nouredine of Morocco; and Sally Peberdy of the Southern African Migration Project.

Books and reports

"Global Migration and the World Economy; Two Centuries of Policy and Performance", Timothy Hatton and Geffrey Williamson. MIT Press, Cambridge. 2005.

International Migration Outlook, OECD, 2007 Edition.

"Immigrants: Your Country Needs Them", Philippe Legrain. Little Brown. 2006.

"Illicit: How Smugglers, Traffickers and Copycats are Hijacking the Global Economy", Moisés Naim. Random House. 2005.

"Immigration Under New Labour", Will Somerville. Policy Press, University of Bristol. 2007.

Think-tanks and websites

Centre for Immigration Studies

NumbersUSA

Migrationwatch UK

Migration Policy Institute

Hellenic Migration Policy Institute

Centre on Migration Policy and Society

Christian Aid (on climate change and migration)

SendMoneyHome (remittance advice)

Southern African Migration Project

Philippe Legrain's blog

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

Offer to readers

Jan 3rd 2008
From The Economist print edition

Buy a PDF of this complete special report, including all graphics, for saving or one-click printing.

The Economist can supply standard or customised reprints of special reports. For more information and to place an order online, please visit the Rights and Syndication website.

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

Mergers and acquisitions

Whither the great wave?

Jan 3rd 2008 | NEW YORK
From The Economist print edition

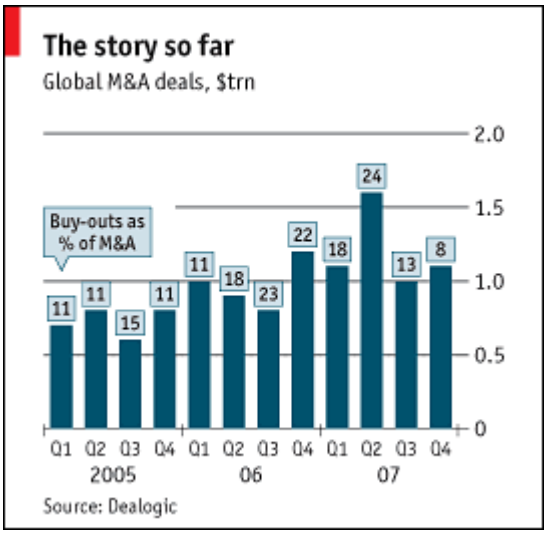
The greatest ever merger wave is changing shape—but it may not be breaking yet

Illustration by David Simonds

Get article background

"IT'S A bump in the road, but not an unhealthy one," says David Rubenstein. The morning after paying $21.3m for a copy of the Magna Carta dating from 1297, the boss of the Carlyle Group, a big private-equity firm, is in the mood to take the long view. The golden era of private equity is probably over, he concedes. "After a great ride for five years, private equity is entering a more challenging period," he predicts. Returns are likely to come down, if only because they have been so high, he says. But the industry has been through downturns before, and each time "changes were made and private equity came back stronger."

The future of the merger wave that has been sweeping all before it since 2003 now depends on how deep the downturn in private equity proves to be and how long it takes to recover and come back stronger. In the first half of 2007 deal activity was so rapid that last year was still the best ever for merger activity, according to Dealogic. But when credit started to crunch in the summer, activity slowed dramatically, particularly by private-equity buyers, which in the second quarter of 2007 accounted for an unprecedented one-quarter of all deals (see chart).



Almost overnight, instead of breaking new records every other week for the biggest ever private-equity acquisition, the scramble was to complete deals that had already been agreed on. Hard-pressed banks found themselves unable to syndicate private-equity debt and switched from practically giving away credit to supplying it at a high price, with strings attached, if they supplied it at all. Several high-profile deals fell apart, including some from blue-chip private-equity firms—a trend that has continued into the new year. A few minutes into January 1st PHH, a mortgage company, announced the collapse of its $1.8 billion sale to a consortium led by Blackstone Group.

Many of the wiser heads in private equity quietly admit that, thanks to easy credit, white-hot prices were paid by an industry that tends to do its best deals in cooler markets. Growing fears that the credit crunch will be followed by a recession, at least in America, have added to concerns about the quality of firms in many private-equity portfolios. During the recession of 1991-92 that followed the first boom in private-equity deals—which were known at the time as leveraged buy-outs—many of the firms that had been bought at the top of the market ended up in bankruptcy, unable to finance all the debt that had been used to buy them.

So far, defaults on corporate debt remain at record lows, though market prices predict this will change. But Mr Rubenstein is not alone in thinking that private-equity firms are “much better prepared for a slowdown” than they were. For one thing, deals have generally involved less leverage than they did in the 1980s. And the terms on which debt was raised mean that the banks are less able to force private-equity borrowers into bankruptcy.

Furthermore, private-equity firms are sitting on record amounts of capital and continue to be able to raise large sums, notably from pension funds, despite the credit crunch (though private-equity distressed-debt funds and emerging-market funds are now flavour of the month, not mainstream buy-out funds). As a result, private-equity firms have plenty of cash to shore up the balance sheets of their firms, should they run into difficulties. This should enable them to stave off a rise in bankruptcies that could harm private equity's appeal to investors.

These days private-equity firms also look more to wring profits from improving the operations of their firms. That strategy is more recession-proof than relying on financial engineering, as in the past. A downturn may even have a silver lining for the industry if it curbs the recent political attacks on private equity, suggests Mr Rubenstein. “Politically, it can't hurt to not have headlines every day about another company being bought by private equity,” he says—though the industry may also have to grapple with the bad publicity of low returns and bankruptcies.

The downturn in private equity has come entirely at the top end of the market. Private-equity funds smaller than $1 billion have seen “almost no slowdown in deal activity, and lots of deals will be closed in the first quarter of this year,” says Jeff Temple of ProAction Group, a post-merger consultancy. Mr Rubenstein says that he expects to see deals in the $3 billion-5 billion range by mid-2008, with “perhaps the occasional $10 billion-plus”, which would be a big improvement on today's state of affairs. But financing for mega-deals worth $30 billion-40 billion will be hard to come by, at least for leveraged buyers, he predicts.

All this creates a big opportunity for “strategic mergers”—that is, the old fashioned sort in which one company buys another. When private equity was in its pomp, strategic corporate buyers often found themselves priced out of the market. Now they have a big opportunity, says Gregg Nahass, a merger specialist at PricewaterhouseCoopers (PwC), a consultancy. Corporate balance-sheets are strong, he says, with relatively low levels of debt. The companies in the S&P 500 index have combined cash and liquid securities of $1.7 trillion.

And the wave rolls on

The mergers and acquisitions (M&A) market got a boost in November when BHP Billiton, a mining giant, made a $140 billion offer for its rival Rio Tinto, a bid that is fast becoming hostile. A few more deals like that would keep the business flowing. Mr Nahass also expects the merger wave to change shape as the weak dollar makes American firms into attractive targets for both foreign and domestic buyers. In PwC's 2007 survey of global chief executives, 61% of North American bosses said they intended to make acquisitions in North America, up from 35% in 2006.

In his annual new-year forecast for merger activity, Martin Lipton, a legendary takeover lawyer, notes that many of the factors that created the latest merger wave remain in place. These include the desire of countries to create national champions and sometimes (Russia, China) global champions; the dismantling of takeover defences; the opening of new countries to M&A; the growing enthusiasm of institutional investors and hedge funds for M&A deals; the march of infrastructure privatisation; and pressure on firms to focus on core activities and spin off the rest.

Mr Lipton says that it is impossible to predict M&A activity this year “with any degree of confidence”, but says his best guess is a decline in global deals of “more than 25%” in 2008. The wild card, he rightly points out, will be mergers by companies from commodity-rich countries and, above all, investments by

their sovereign-wealth funds. Nobody knows much about most of these funds or their investment strategies. But if they continue their recent spate of deals, which has included taking several stakes in financial firms hit by the credit crunch, and provided there is not a serious political backlash against them in America and Europe, sovereign-wealth funds have the resources not just to keep the merger wave going—but to make it bigger than ever.

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

Business jets

Winging it

Jan 3rd 2008
From The Economist print edition

The best thing about a new supersonic plane is how well it flies slowly

Aerion

Get article background

NOTHING, it seems, can slow the demand for business jets. Even a recession in America is unlikely to put a dent in the planemakers' bulging order books. In 2007, as new customers from China, Russia and India queued up, sales outside America for the first time outstripped those in the traditional home of business aviation. Oppressive airport security and chronic flight congestion have given bosses a good excuse to turn their backs on commercial flying. But once airborne, they still cannot fly any faster than *hoi polloi*.

The belief that some of them would like to has inspired Aerion, a firm based in Reno, Nevada, to devise the world's first supersonic business jet. Having refined and validated its design, it began accepting letters of intent for its first 40 planes in the last few weeks of 2007. So far more than 20 prospective customers have forked out $250,000 deposits for the $80m aircraft. Aerion predicts sales of around 300 planes over ten years, a forecast it describes as “cautious”.

Those first eager customers are expecting to get their hands on a plane that can fly up to 12 passengers more than 7,400km (4,600 miles) at speeds of up to 1,700kph (1,050mph), or 1.6 times the speed of sound, over sea and approved land corridors. Unlike the ill-fated Concorde, it can also cruise as efficiently as existing business jets at high subsonic speeds. That is critical for flying over America, where supersonic flight is banned because of the noise pollution created by sonic booms. For other parts of the world, Aerion has another trick up its sleeve: it says its design allows “boomless” cruising at 1,200kph, or 1.15 times the speed of sound, which would be permitted under international rules.

The key to Aerion's abilities is its unusually shaped “natural laminar flow” wing, which reduces drag by up to 20% compared with previous delta-wing technology. Another advantage of the Aerion design is that it uses proven Pratt & Whitney JT8D engines that meet the latest noise and emission regulations. Perhaps the biggest problem Aerion faces is finding an airframe-maker with the spare capacity to build its plane. But it expects to announce a risk-sharing partner this year (Embraer is one possibility), so that the plane will be flying by the second quarter of 2012. First deliveries are scheduled for 2014. Just over a decade after the retirement of Concorde, it may once again be possible for a select few to leave Paris at 8am and arrive in New York in time for breakfast.

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

Advertising

How not to annoy your customers

Jan 3rd 2008
From The Economist print edition

Is in-store television an effective advertising tool? Perhaps, if done right

IN-STORE television would seem to be a no-brainer for big retailers. It makes their shops more attractive to consumer-goods companies because they can advertise their wares direct to a captive audience. It lets retailers run their own advertisements and promotions. It keeps shoppers informed and entertained. And after an (admittedly large) investment in the in-store network, it can be a lucrative source of advertising revenue.

AP

Now available in stores everywhere

Even so, in-store television has so far worked well for only some retailers in some countries. America's Wal-Mart, the world's biggest retailer, started with in-store TV ten years ago in partnership with Premier Retail Networks (PRN), a firm based in San Francisco that is owned by Thomson, a French technology firm. It has the world's biggest network, with screens in over 3,000 of its huge shops in America. After much trial and error it seems to have learnt how to carry it off. Some 140 firms, including Procter & Gamble (P&G) and Unilever, the world's biggest consumer-goods companies, pay to advertise on Wal-Mart TV. (Wal-Mart and PRN split the proceeds, but will not say how.) A survey of retailers by Retail Systems Research (RSR), a consultancy, found that in-store TV increased overall sales by 2%.

Wal-Mart started with a single in-store channel but now has six, covering subjects such as food, electronics and health, which are shown on giant screens in a store's various departments. Since the attention span of busy shoppers is short, these channels differ from ordinary television. A 30-second spot created for TV is too long, except for people stuck in check-out lines. Spots of five to 15 seconds, with one or two messages, work best. Non-stop advertising puts shoppers off, so Wal-Mart mixes advertising with entertainment, weather reports and cooking tips. On average, customers watch one minute of programming per visit. They get annoyed if it is too loud, so Wal-Mart turns down the volume when its shops are less busy.

In Britain the in-store network being built by Tesco, the world's third-biggest retailer, is at an earlier stage. After launching its system to great fanfare in 2004 with JCDecaux, a French outdoor-advertising company, Tesco failed to win many advertisers and almost pulled the plug on the whole project. But in 2006 it asked dunnhumby, a British marketing company, to relaunch “Tesco TV” in 100 of its supermarkets, with about one-third of the chain's sales. There are now closer ties between what appears on the screen and other in-store promotions. A new “brand sting” format is said to have lifted sales of some products by as much as 25%.

The greatest hope for in-store TV may be in emerging markets, where shoppers are hungrier for branded

consumer goods than they are in the rich world. In November PRN said it was helping Carrefour, the world's second-largest retailer, kit out all of its hypermarkets in Brazil with in-store TV. (It has already fitted Carrefour's shops in Poland.) In China Focus Media, a local company, is dotting the retail landscape with giant screens.

The business model for in-store TV varies. Sometimes a company such as PRN pays for the screens, sells the advertising slots and pockets most of the revenue, with a cut going to the retailer; sometimes the retailer pays for the screens, gets another firm to run them and keeps the revenue for itself. In-store television networks make most sense for big retailers, says Nikki Baird of RSR, because of the cost of installing screens (typically $4,000 per shop) and updating content. Big retail chains also find it easier to attract advertisers, because they can promise more screens in more places.

All of this depends on the willingness of consumer-goods companies to buy advertising slots, however. Though about 80% of them renew their in-store TV deals, they are still not totally sure about the idea. Paul Fox of P&G says it is too soon to judge the new medium. The company is not yet certain, he says, how in-store TV fits into the broader mix of marketing. But studies suggest that three-quarters of all decisions to buy something are made inside shops, so done the right way, in-store TV advertising could, in theory, make a big difference. Stay tuned.

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

Business in Norway

Girl power

Jan 3rd 2008
From The Economist print edition

Norwegian companies' boards are now stacked with women

HENRIK IBSEN, author of the play “A Doll's House”, in which a pretty, frustrated housewife abandons her husband and children to seek a more serious life, would surely have approved. From January 1st all public companies in Norway are obliged to ensure that at least 40% of their board directors are women. Most firms have obeyed the law, which was passed in 2003. But about 75 out of the 480 or so companies it affects are still too male for the government's liking. They will shortly receive a letter informing them that they have until the end of February to act, or face the legal consequences—which could include being dissolved.

Before the law was proposed, about 7% of board members in Norway were female, according to the Centre for Corporate Diversity. The number has since jumped to 36%. That is far higher than the average of 9% for big companies across Europe—11% for Britain's FTSE 100—or America's 15% for the Fortune 500. Norway's stock exchange and its main business lobby oppose the law, as do many businessmen. “I am against quotas for women or men as a matter of principle,” says Sverre Munck, head of international operations at Schibsted, a media firm. “Board members of public companies should be chosen solely on the basis of merit and experience,” he says. Several firms have even given up their public status in order to escape the new law.

Companies have had to recruit about 1,000 women in four years. Many complain that it has been difficult to find experienced candidates. Because of this, some of the best women have collected as many as 25-35 directorships each, and are known in Norwegian business circles as the “golden skirts”. One reason for the scarcity is that there are fairly few women in management in Norwegian companies—they occupy around 15% of senior positions. It has been particularly hard for firms in the oil, technology and financial industries to find women with enough experience. DNO, for instance, an oil and gas firm that operates in Yemen, Iraq and elsewhere, found women it was happy with last November, but their expertise is in finance and human resources, not oil, says Helge Eide, DNO's president. “However, we retain sufficient oil and gas experience in the men on our board,” he adds.

Some people worry that their relative lack of experience may keep women quiet on boards, and that in turn could mean that boards might become less able to hold managers to account. Recent history in Norway, however, suggests that the right women can make strong directors. When a whistleblower at Statoil, the country's biggest firm, alerted managers in 2003 to possible illegal payments to a consultant to secure contracts in Iran, it was Grace Reksten Skaugen and two other women directors who called an extraordinary board meeting that resulted in the resignations of the chairman and chief executive. “Women feel more compelled than men to do their homework,” says Ms Reksten Skaugen, who was voted Norway's chairman of the year for 2007, “and we can afford to ask the hard questions, because women are not always expected to know the answers.”

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

Software as a service

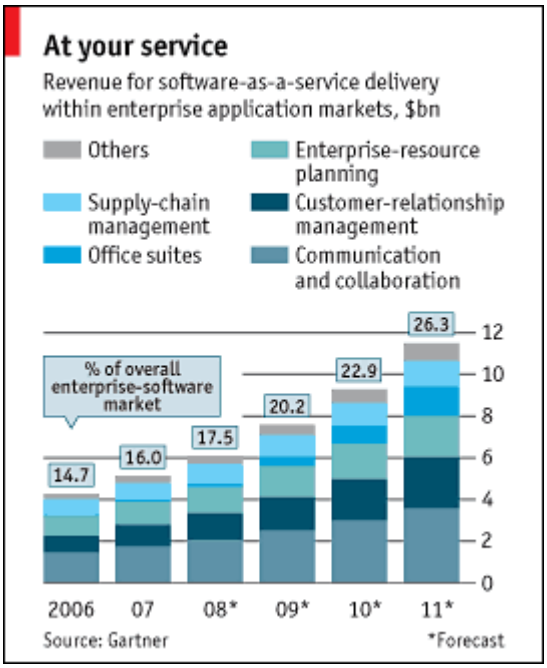
A question of demand

Jan 3rd 2008 | SAN FRANCISCO
From The Economist print edition

What NetSuite's flotation says about the software industry

INVESTORS appear ready to suspend disbelief yet again, at least when it comes to technology firms. On December 20th they drove up shares of NetSuite, which provides business software that runs inside a web browser, by 37% on the first day of trading, despite an already high offering price. The same day the share price of salesforce.com, another firm offering web-based software, reached new heights, briefly giving it a market capitalisation of nearly $8 billion. Do their offerings, known as “on-demand software” or “software as a service”, justify such figures?

For years, sceptics said that concerns over security and reliability would stifle demand for software delivered using the internet. But both NetSuite and Salesforce have signed up plenty of customers. As of September, NetSuite—a firm created with money from Larry Ellison, the boss of Oracle, a software giant—had more than 5,400 clients. Salesforce, the market leader, serves more than 38,000 firms and recently signed up its millionth paying user. According to Gartner, a market-research firm, the market for web-based applications reached $5.1 billion in 2007 and will grow to $11.5 billion by 2011—by which time it will account for over one-quarter of software sold to companies (see chart).



But it is not yet clear where and how exactly this demand will make itself felt in the businesses-software market. NetSuite and Salesforce have made very different bets and do not compete directly. NetSuite's mission is to offer a complete set of applications that enable small firms to run their businesses, including accounting, payroll and marketing. Salesforce, by contrast, specialises in “customer-relationship management” (CRM)—in short, enabling companies of all sizes to manage sales, marketing and customer support.

Meanwhile, the incumbents are not sitting still; some have recently launched web-based software of their own. SAP, the largest provider of business applications, now also offers an online suite for smaller companies. It may not be as flexible as NetSuite's, but it is certainly more complete, allowing customers to manage their manufacturing, for example. Salesforce, for its part, will have to compete with new products from Oracle and Microsoft. Both have spent huge sums in their efforts to catch up with the pioneer in online CRM.

The biggest doubt is whether you can make much money selling software this way. Vendors of conventional enterprise software made a killing by requiring customers to pay a high licensing fee upfront and then charging them for maintenance. Web-based firms, by contrast, have to make do with subscription fees. This means they are not able to grow as quickly: both NetSuite and Salesforce have been around for almost a decade. They have had to invest a lot in attracting customers and building data centres to supply their services. As a result, NetSuite has never posted a profit; at the end of September, its accumulated deficit amounted to nearly $242m. Salesforce is barely profitable and boasts an otherworldly price-to-earnings ratio of around 660.

There are also worries about each company. With NetSuite, the big question is what Mr Ellison will do. Even after the flotation, he and his family still hold two-thirds of the firm's shares. To avoid conflicts of interest, as Oracle's boss and the majority shareholder of a potential competitor, he has parked his shares in a “lockbox”, a limited-liability company, so that he cannot intervene in NetSuite's day-to-day business. Even so, Mr Ellison could yet sell the firm to Oracle if it proves to be a big success (though he

recently said that he believes it is hard to make money selling software services to small companies).

Salesforce, for its part, needs to grow beyond CRM to avoid the fate of Siebel, the pioneer in this software category, which ended up selling itself to Oracle in 2005. To broaden Salesforce's range, Marc Benioff, its boss, has turned the firm's service into a platform for web-based business software. This means other companies can use it to build their own applications—just as programmers write software to run on Microsoft's Windows operating system. Although Mr Benioff claims that thousands of applications have already been written for the platform, called Force.com, it is too early to say whether the idea will work.

More broadly, NetSuite's successful flotation may prompt other technology firms to follow suit. LinkedIn, a social network for professionals, is one candidate; so too is Facebook, the fastest-growing social network. So far the second internet boom has mostly seen big firms paying generous prices for promising start-ups, but in 2008 it may start to look more like the first—Bubble 2.0, if you like. When will it pop?

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

Face value

The social technologist

Jan 3rd 2008
From The Economist print edition

Yossi Vardi, an Israeli entrepreneur, thinks the technology industry should do more to address social problems

Herbert Bishko

“IF YOU print this, I will kill you.” Yossi Vardi, a veteran Israeli entrepreneur and venture investor, says it politely, but this is clearly not one of his many jokes. Nor is he trying to protect the top-secret business model of one of the dozens of start-ups he is advising or has financed. He simply hates to appear boastful about a social project to which he donates time and money. “This is more important than any of my start-ups,” he explains. “Making it public would devalue what I'm doing here.” To prevent loss of life—and to protect a deserving project—the secret will not be revealed. But the anecdote is telling. Mr Vardi has long been Israel's most famous technologist. He is known for having helped build the country's high-tech industry, and for selling ICQ, an instant-messaging service, to America Online in 1998 for more than $400m. Now his aim is to become the industry's conscience. His message: only a happy few are benefiting from Israel's amazing high-tech boom. “We have become two countries: a high-tech one with few children and very high incomes, and a poor one with lots of kids,” he says.

Born in 1942 in Palestine, Mr Vardi started his career in fields that would be called low-tech today. At the age of 27 he was appointed director-general of Israel's development ministry and then held a similar job at the energy ministry. Later he led or helped to found some 60 companies such as Israel Chemicals, the Israel Oil Company and ITL Optronics. Then, in 1996, he invested in his first internet start-up, Mirabilis, the company behind ICQ (“I seek you”). One reason was that his son Arik was one of the founders. But Mr Vardi also realised that instant messaging, then a novelty, would spread like a contagious virus. “Three major viral products emerged from this part of the world: the Bible 2,700 years ago, Jesus 2,000 years ago and ICQ ten years ago,” he jokes. Search for ICQ using Google and there are 675m matches, he points out, compared with 160m for the Bible and 178m for Jesus.

The success of ICQ provided Mr Vardi with more than just the cash to seed dozens of internet start-ups. It also seems to have shaped the investment strategy of a man who does without a secretary and manages his investments from an office in the basement of his home. He was interested in the internet's social aspects even before “social” became the new “.com”. Rather than being a hard-nosed venture capitalist, he is more like a financial father-figure to young entrepreneurs. When choosing which projects to support, he pays far more attention to an entrepreneur's personality than to fancy PowerPoint presentations. (“PowerPoint presentations damage your brain—if you look at too many, you become immoral,” he once told the *New Yorker*.) Those who do win his backing become part of his family. In return for Mr Vardi's support they are expected to play by his rules, such as not taking credit for the achievements of others.

No wonder Mr Vardi has not hit it big since he sold ICQ, say his detractors. But ICQ was a hard act to follow. If none of his other start-ups have been so successful, it is not for lack of quality. Many in fact

have more substance than similar ventures spawned in Silicon Valley. SpeedBit, for instance, has managed to slash download times for a full-length feature film to 40 minutes; YouFig is an innovative online-collaboration service; and Superna's technology makes it easy to build home networks and share content between different devices.

As well as overseeing his start-ups, Mr Vardi, a fixture at international technology conferences, has done much to make Israel a prime destination for venture capital, most of it coming from America. In 2007 Israeli high-tech firms raised $1.7 billion, according to the Israel Venture Capital Research Centre. The organisation reckons that Israel now boasts more than 3,300 high-tech firms, which means it has more such firms per head than any other country in the world. Most of them are clustered around Tel Aviv, where the suburbs are starting to feel like Silicon Valley. Yet critics say that the technology industry exists inside a bubble which is increasingly isolated from the rest of the country. This widening gap also worries Mr Vardi. Fewer than 6% of Israelis work for high-tech firms, he points out. Such companies create demand and jobs in other fields, of course, but the share of the population benefiting from the boom remains tiny. Rather than focusing on high-tech, “the time has come to change proportions and invest the government's R&D budgets into traditional industry to create more jobs,” he says.

Looking outside the tech bubble

Many in the high-tech industry agree with Mr Vardi's assessment, if not with his solution. “Yes, there is a problem. But pouring money into other industries won't work,” insists Zohar Zisapel, the founder and chairman of RAD, a group of 15 companies that make telecoms equipment. Zeev Holtzman, the boss of Giza Venture Capital, a big Israeli venture-capital firm, is another sceptic. “The main strength of Israel is the quality of the people here. So we have to start with education,” he argues.

Things are unlikely to change quickly in any case, not least because the high-tech elite is wary of getting involved in social reform other than through philanthropy. Israeli entrepreneurs dislike and avoid politics even more than their Silicon Valley counterparts do. Yet, Mr Vardi believes, they could be missing a chance to set an example for the world. For it is not just Israel's high-tech industry around Tel Aviv that floats like an island of wealth in a sea of poverty. In places such as Bangalore in India the situation is even worse. A computer-smashing, neo-Luddite backlash may seem unlikely—but why not divert some of the energy from the high-flying tech industry to addressing social problems? “Happiness is relative,” Mr Vardi warns. “The more successful the high-tech sector, the more frustrated and unhappy the rest of society could become.”

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

Employment in Japan

Sayonara, salaryman

Jan 3rd 2008 | TOKYO
From The Economist print edition

Once the cornerstone of the economy, the paternalistic relationship between Japan's companies and their salaried employees is crumbling

Eyevine

Get article background

WHEN they were young they might spend the night at the office, sleeping under their desks. For years they would go out drinking with colleagues and clients, returning home sozzled at 3am before rising at dawn to head back to the office. They accepted boring jobs or postings to provincial backwaters without question. And they did it all simply because the company asked them to. The thought of finding another employer never crossed their minds.

That is how the “salaryman” became the paragon of modern Japan, the white-collar hero who fashioned the world's second-largest economy from the ashes of war. But he is becoming a figure of the past. This has enormous implications in a country in which the company is the dominant institution in people's lives, affecting not only Japan's world of work but also wider Japanese society.

The change in the labour market gathered pace in the 1990s, as Japan's economic woes forced companies to scale back employees' benefits dramatically. Increasingly, many firms hired new staff on short-term or part-time contracts rather than treating them as members of the corporate family. Japanese businesses, harried by foreign competitors, have gained from having a more flexible workforce. Moreover, mergers and acquisitions are starting to become more common, so firms cannot offer the traditional long-term assurances to employees even if they want to. Lastly, a big generational shift is taking place. Today's young professionals refuse to make work the centre of their lives or to accept the hardships and corporate paternalism of earlier decades.

These labour-market forces manifest themselves in several ways. They affect gender equality, as more women enter the workforce. They touch on immigration, as foreigners are called in to do jobs that the Japanese reject. They are changing the role of older people, as many pensioners rejoin the workforce. And they have distributional consequences too. Japan is one of the most egalitarian of the world's rich societies, yet it now has one of the largest shares of “working poor”—people who have jobs but can barely make ends meet. Wages have fallen by around 10% (in nominal terms) over the past decade.

The demise of the salaryman brings all these issues into stark relief. Though the term was coined in the 1920s to reflect the new managerial class that oversaw the country's industrialisation and modernisation, it became an ideal only after the second world war. Becoming a salaryman denoted success, enshrining solid middle-class status.

More importantly, it meant stability. Employment was more or less guaranteed until retirement. Wages were low at first but increased predictably until the pension arrived to see the salaryman through his silver years. Training was provided. Perks abounded. The firm looked after the employee and his family. In return, the salaryman devoted his life to the firm. A university graduate did not choose a career; he chose a company.

A night on the town

Today's older salarymen are stoical about the changes. They see that they are the last of their breed, but feel neither nostalgia for their past nor frustration at the younger generation's rejection of their ways. In private moments, indeed, the old guard question the sacrifices that led them to put work ahead of family and conformity ahead of their own interests. In a survey by a global consumer-products company, many salarymen expressed frustration at how their lives had turned out.

One night in Shimbashi, a grey, worn district of Tokyo near a big train station that feeds salarymen to the suburbs, three men in their mid-50s are huddled around their sakes and cigarettes at an outdoor bar. Akira, Sho and Hiroyuki (“Harry”) joined their firm around 30 years ago. Each wears a pin of the conglomerate's logo on his lapel. They reminisce about their lives as salarymen and the changes that have taken place, recounting their experiences ever more richly as the sake flows.

When Akira got married, he recalls, he invited his *bucho*, or division chief, to the wedding, as all salarymen did. And during the reception the boss made a speech to the bride, as he always did. “Your new husband is a very good worker,” he began. “He is important to the company. So please understand that he may need to work many long hours.” All the guests nodded silently. “And when he is at home, please take care of him.”

Akira says that his bride—the marriage was largely arranged by their families—was not upset by the *bucho*'s remarks: her role of housewife was taken for granted. “But later she thought something must be wrong with the system,” he confides. Akira would return home in the small hours stumbling drunk; dutifully she would wait up, angered. The dinner is put away and the bath is cold, she might say. As he grew older, he no longer stayed out so late. But he did not share her reservations about his evening activities. “In Japan entertaining clients is a part of the job,” he explains.

A salaryman arrives in the office at 9am and ends his working day late, often around midnight. He does not dare leave the office before his supervisor—and managers stay late to show their loyalty. Is any work going on? Rarely. But long hours remain the norm.

A few times a week, at around midnight, the boss may assemble the team and go out on the town. Then the “working” day does not end until around 2am, in a bar; the journey home takes another hour or two. Drinking deep into the night was long considered part of the job; companies set aside a budget for it. But the funds were slashed during the “lost decade” and have not been replenished. Now employees bear the cost themselves.

Late-night carousing is becoming less common these days: younger colleagues treat the hours after work as their own, not the company's. Nobu, an ambitious 31-year-old salaryman, is one such. He chose a job at an American company in part so that he could work reasonable hours. He didn't count on having a manager of the old school, who kept the team in the office or in the bars. “My first year, I didn't get more than three or four hours of sleep a day,” he says. Changing jobs was not an option. “I didn't want to quit—because it was so tough,” he says. “Then I would have 'lost'.” When he got a new manager, Nobu was able to relish his free time.

The constant sleep deprivation results in a peculiar characteristic of Japanese life: sleeping in public, be it on a train or in a meeting, and its social acceptance. Nightly drinking leads to a special camaraderie, salarymen argue. This translates into better company performance, they say, because it is easier to reach a consensus—the way almost all decisions are made in Japanese companies.

Yet the rough living and working takes its toll. There is even a term, *karoshi*, or “death by overwork”, which has been legally recognised since the 1980s (although most victims have been industrial workers rather than salarymen). Cases of mental illness in the workplace are soaring. The country's suicide rate is among the highest in the world.

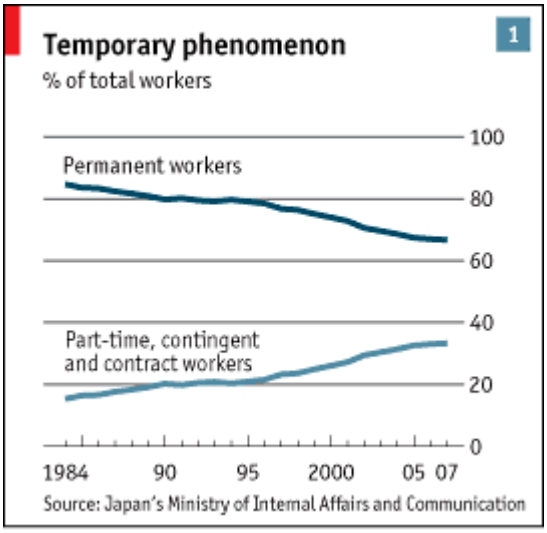
Older salarymen can appreciate the younger generation's preference for more humane hours. The

government is even pushing the idea of “work-life balance” (it uses the English term). “The times have changed,” says Harry. “*Shoganai*,” concludes Sho, meaning “it can't be helped.”

Capitalism with a human face

Much is made in the West of the distinctive features of Japanese capitalism. First, cross-shareholdings protect companies from unwanted takeovers. Yet since 1990 the proportion of all company shares owned by business partners has fallen from around half to around a quarter. Second, a “lifetime commitment” between company and worker—usually simplified to “lifetime employment”, although it is much more than that—means that employees have more stability in their careers. This too has ebbed as the number of “regular” workers, who enjoy company benefits, has declined and the number of temporary and part-time employees has increased (see chart 1).

Less understood is the seniority-wage system, a third pillar of Japanese business. Salaries are based on length of service rather than performance. Employees are paid very little for most of their careers. Moreover, there is little difference between the salaries of the highest- and lowest-paid staff of the same age: generally around 25%. (An old joke among salarymen is that Japan is the only country where socialism worked.) From around 50 until the mandatory retirement age of 60 (now rising to 65), salaries grow quickly. At retirement a bonus of around three times the final annual salary is paid in a lump sum. And a steady pension kicks in—it comes partly from the state, partly from the company.



As a means of fostering solidarity in the workplace and an egalitarian society, this system is eminently practical. Yet from the perspective of individual incentives, responsibility and performance, it is inefficient and unfair; exceptional work is unrewarded, other than by a modest bonus and a bow.

The rationale for the system is that it matches a salaryman's income to his household's expenses. So when the fellow is in his 30s, the family does not require much. When he reaches 50 and the kids leave for university, his salary is commensurate with his increased bills. And when he retires, he can count on being taken care of by the company. Like so many things, however, the system is starting to fray. Some companies have introduced a bifurcated structure that grafts performance-based pay onto the traditional seniority system.

Other forms of employee care are also on the wane. University is largely a recreational interlude between the intense “cram-schools” needed to get on a degree course and the drudgery of office work to come; it is not a time for gaining professional skills. So on the first day at work, employees are often ushered into a classroom that creates a Mitsubishi man, a Matsushita man, and so forth. (Among the courses is “business etiquette”, in which new hires learn how to exchange business cards following strict protocol and practise their bows.) But as baby-boomers retire and temporary workers replace the full-time veterans, training is drying up.

For years, the three salarymen in Shimbashi placed their savings in the company's bank, which paid interest at twice the rate of an ordinary bank. The activity, a relic of the early 20th century, allowed the company to raise capital without turning to a bank by becoming a bank itself. But the practice was discontinued around 2000 when regulators feared that if these large companies were to fail, not only the employees' jobs and pensions, but also their savings, would be wiped out.

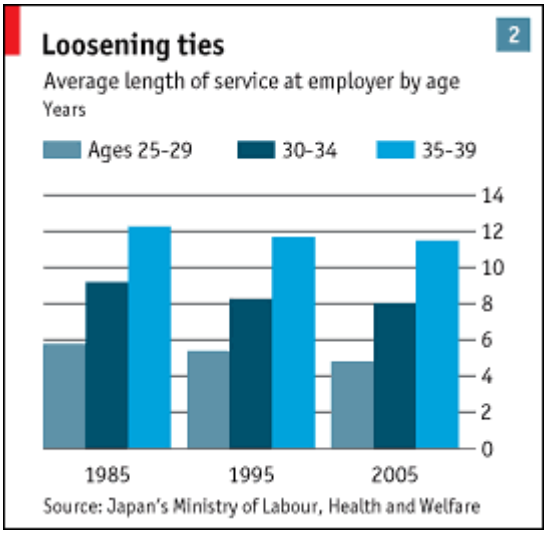
In addition the company provides housing. Of the three salarymen in Shimbashi, two live in company apartments on which the rent is subsidised, so they pay only around one-third of the market rate. Moreover, salarymen take their holidays at company-owned resorts, which cost half the normal price. These perks help explain the sprawl that is one of the curiosities of Japanese companies. A big firm may have more than 1,000 subsidiaries, from restaurants to property, partly to secure an in-house supply of a wide range of benefits to employees. (Such units also make good places to park mediocre managers for a few years before retirement.)

How much holiday?

Though the companies may own numerous *onsen*, or hot-spring resorts, dotted across the country, the amount of holiday is becoming a sore point with employees. Most salarymen take only a small fraction of their annual paid holiday, since to use it all seems to raise a question over the employee's devotion to the firm. For example, Sho says that he has 20 days' holiday a year. But when pressed, he admits that he takes only five. He says he does not feel badly, since it is only right to work a lot—but his robotic response and body language signal his reservations.

The consequences of breaking the unwritten code can be severe. Even a star performer who uses the full holiday may be denied pay rises and promotions. Leaving the company is treated as betrayal. All trace of the person is airbrushed from the workplace. Social norms keep people at their desks: older Japanese sniff about “job-hopping”. And the seniority-wage system means that switching jobs can be expensive. Until recently, pension contributions were company-based; portable individual-retirement accounts did not exist. And firms were not really equipped to absorb mid-career executives, preferring to hire them fresh out of university and keep them until retirement. Leaving a company meant unwinding a dense web of relationships.

Even so, much of this is changing, as younger salarymen push back. Preferring to delineate company time and personal time, more are taking their holidays. New employees are switching jobs too (see chart 2). Nobu, for instance, says that when he graduated, half his classmates joined leading Japanese companies (the others chose smaller firms or Western ones). But only around half are still in those traditional salaryman jobs. In 1960, he reckons, 90% of the class would have gunned for the top jobs. Almost all of them would have stayed with the same firm until retirement.



The structure of work, with its perks and paternalism, has had the effect of locking people into place. It creates a static environment for labour rather than a fluid one. Why? It is an important question: business efficiency is about the optimal allocation of resources, and a sclerotic labour market hampers companies' performance and restricts workers' choices.

Like many things in Japan, the answer goes back a long way. An official at the Ministry of Labour traces it to the Edo period, beginning in the 17th century. Important trading houses, some of which still exist, were founded then. They considered employees as family. But economic historians place a more recent date on the static workforce. When Japan modernised at the end of the 19th century, it needed to import technology from abroad. This new technology created a need for skilled labour in a then highly itinerant workforce. So companies got into the habit of housing and training their employees. And the investment in training meant that companies did everything they could to keep their workers.

This paternal relationship was frozen in place during the second world war, when the Japanese government leaned on companies to lock in employees as a way to guarantee production. After the war the Americans gave Japanese workers the right to unionise. This reinforced the illiquidity. Unions prized job security and supported a pay structure based on age, not merit.

AP

Images of days gone by

Today the legacy is clear. The salarymen in Shimbashi recall enormous sacrifices as well as bountiful benefits. Both are waning. The salaryman system has buckled under the strains on the Japanese economy. Yet its decline is in turn adding to those strains. As the population ages and falls, by 2030 just two workers will have to support every pensioner. But temporary and part-time employees are paid around 40% less than regulars. Half of them make no pension contributions, placing a burden on the system today and creating a huge fiscal time-bomb.

Japan is changing, but slowly. On a commuter train outside Nagoya, in the centre of the country, five high-school girls giggle at a barrage of questions about their lives. Chihiro, who wants to be a hairdresser when she grows up, says her father usually returns home around midnight. Her mother disapproves, to no effect. He works, by chance, for the same conglomerate as the men in Shimbashi. Chihiro, asked if she also wants him home earlier, replies "*shoganai*", echoing the salarymen. But when she grows up and gets married, will she let her husband do the same? Chihiro and her friends shriek: "No way!"

Nobu, the young salaryman, likes his job but plans to start his own business one day. The older men in his office struck compromises that he is not prepared to endure. "After 1945, we were left with nothing, so we had to work together, with the same goal and as one team. We were a success, and Japan grew," he says. "But this organisation doesn't work any more. It has stayed the same for too long. The system has rusted."

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

The euro area

Déjà vu

Jan 3rd 2008
From The Economist print edition

The euro area is not immune to the ills that afflict America and Britain

Illustration by Satoshi Kambayashi

Get article background

EARLY in the new year of 2001, Lucas Papademos attended his first meeting of the European Central Bank's (ECB) rate-setting council. Mr Papademos was there to represent Greece, which had just joined the single currency. A day before the meeting, the Federal Reserve had lowered its key interest rate by half a percentage point, the first of a string of cuts aimed at staving off recession. The ECB declined to follow the Fed's lead, deciding to keep its benchmark rate unchanged.

Seven years on, the ECB enters the new year in an eerily similar position. On January 10th its policy meeting will welcome central-bank governors from two new members, Cyprus and Malta, which both adopted the euro on New Year's Day. Now, as then, inflation of close to 3% is the bank's main worry, since it remains fairly upbeat about GDP growth. The ECB's economists expect the euro area to grow by 1.5-2.5% this year—broadly in line with its potential, in other words, albeit with downside risks. Similarly, the bank expected “continuing robust, albeit slightly lower growth rates” at the start of 2001, despite worries about America's economy.

The first policy summit of 2008 is very likely to end with a decision to keep rates on hold, just as the January 2001 meeting did. Indeed the ECB is more minded to lift rates than cut them, judging from comments made by Jean-Claude Trichet, its president, following the bank's last meeting on December 6th. But if events keep playing out just as they did seven years ago, the ECB will be forced into lowering rates later this year.

Much depends on the economy's response to malfunctioning credit markets and the gathering economic gloom in America. An optimist would argue that the euro zone will prove resilient, because it does not have America's legacy of struggling subprime borrowers, its current-account deficit or its housing bubble.

A closer look prompts a less sanguine assessment. Europe has its own property hotspots. House-price gains in Spain and Ireland have been far greater than in America over the past decade. Both markets are now cooling. Even if Ireland's economy is too small to be a big part of the ECB's reckoning, Spain does have enough clout to alter the course of the euro area. Thomas Meyer at Deutsche Bank reckons that in the past five years, Spain accounted for more than one-third of the growth in consumer spending, more than half of the increase in investment and nearly two-thirds of the job gains of the euro area's big four

economies.

The good times may be ending. Spain's boom has been built on a ready supply of loans. But the credit squeeze means borrowed funds are now harder to come by, which leaves its economy vulnerable. Cooling housing markets in France and in Italy are likely to hurt those economies too.

The euro zone also has financial imbalances to contend with. True, its current account has been broadly balanced, in contrast with America's large and persistent deficits. But that is mostly because Germany's current-account surplus, equivalent to 6% of GDP last year according to the OECD, has acted as a huge counterweight to deficits elsewhere.

The high level of saving by German firms contributes to this handsome surplus and masks a worrying fault line running through the euro area. Outside Germany, companies are heavily dependent on borrowing to finance their capital spending, which makes the outlook for investment very sensitive to conditions in credit markets. David Owen at Dresdner Kleinwort reckons that if Germany is excluded, the corporate sector's financing gap (the difference between income and spending) was almost 6% of GDP last year. That is a bigger funding shortfall than in 2000, on the eve of a savage retrenchment by firms that hurt jobs as well as investment (see chart).

Companies' reliance on borrowing is all the more worrying since banks play a far bigger role as suppliers of capital in Europe than in America. The banks' troubles have not yet crippled the supply of loans to companies. Indeed, as Mr Trichet pointed out last month, such borrowing rose by 13.9% in the year to October, a rate that “does not suggest that we are experiencing a credit crunch”. That could be premature. Mr Owen thinks the surge in borrowing may reflect firms taking up pre-arranged credit lines while they can.

The euro area may shrug off these ills, particularly if Germany powers ahead and consumer spending picks up. Germany's export machine has been fuelled by vigorous demand in emerging economies. Moreover, its companies can readily finance capital spending from profits. Even so, Mr Meyer at Deutsche Bank reckons that the export performance of the past two years is “unrepeatable”. A strong euro and sluggish growth (or worse) in Britain and America, the euro area's two biggest markets, mean exports are a less reliable source of demand.

The lesson of 2001 is that when the outlook for the economy appears bad enough, the ECB will cut interest rates, even if inflation is stubbornly high. Already, two other inflation-targeting central banks—in Britain and Canada—have followed the Fed's lead. If the banking crisis persists, the ECB may have to do likewise.

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com FINANCE & ECONOMICS

Buttonwood

And God created alpha

Jan 3rd 2008
From The Economist print edition

A looming challenge for the fund-management industry

Get article background

A LOT of people would like to earn hedge-fund returns. But they are nervous about paying the fees that hedge-fund managers like to charge, and about the risks those managers take.

That creates a great opportunity for those fund managers who can bridge the gap by creating vehicles that might be described as hedge funds “lite”. Doing so has raised a host of interesting issues, among them how to measure the skill, or alpha, of fund managers, and what an index is really for.

The “lite” version of the hedge-fund industry includes products known as “130-30” funds, which allow managers the limited use of hedge-fund techniques, such as going short (betting on falling prices) and leverage (using borrowed money to enhance returns). The name stems from the structure of the product; if the fund has $100m of assets, it will buy $130m of shares, funding the difference by selling $30m of short positions.

Provided the manager has the ability to choose the right stocks to buy and sell, the product should yield superior risk-adjusted returns. And theory suggests that giving the manager the chance to short stocks allows him greater scope to put his skills into effect.

Another popular approach has been to replicate hedge-fund strategies as closely as possible. This can be done in one of two ways. Where a hedge fund has a well known strategy, such as merger arbitrage, the replicator can follow a simple rule—buying the shares of every target company in bid situations, for example, and shorting the shares of the predator. Alternatively, replicators have attempted to deconstruct the sources of the hedge-fund industry's returns, finding, for example, that they are driven by the performance of the American stockmarket or by movements in bond yields. By working out the right combination of these factors, hedge-fund clones are able to offer the industry's advantages at low cost.

Now these various techniques are being combined. A recent paper*, by Andrew Lo of the Massachusetts Institute of Technology and Pankaj Patel of Credit Suisse, constructs a 130-30 index. Such a benchmark would allow investors not only to see whether the 130-30 manager they hired is performing well, but also to create low-cost, quasi-hedge funds of their own.

Messrs Lo and Patel use many factors to assess stocks, ranging from those based on valuation (the ratio of the share price to sales) to business prospects (rising profits) and price patterns such as momentum (shares that have performed well over the previous six months tend to keep doing well). The index consists of long positions in the stocks with the best scores and short positions in the stocks with the worst.

Testing this system over the period 1996-2007 produces returns that beat the S&P500 index by more than a percentage point a year with similar volatility. Of course it is always possible, by massaging the data sufficiently, to come up with a way of retrospectively beating the market. On the other hand, investors have no guarantee that traditional fund managers (who also use past performance as a sales tool) will perform as well in the future.

Purists would say that the Lo-Patel approach is not really an index, but a stock-picking strategy masquerading as a benchmark. An index should be passive, not active, critics argue; it should also be measuring market performance, rather than trying to beat it. But investors are likely to be relaxed about such intellectual niceties if the technique provides attractive returns. The deeper question is what such approaches tell us about “active” managers, who charge high fees.

Many of those managers run portfolios with the help of models similar to that devised by Messrs Lo and Patel. They claim that the excess returns they generate are the result of alpha, or skill. But if those returns can be reproduced by a set of mechanical rules, is skill really involved?

Fund-management skill is becoming rather like the 19th-century concept of a “God of the gaps”. Once humans attributed the weather or earthquakes to divine intervention; then they discovered high-pressure systems and plate tectonics. The number of events that required a heavenly explanation (the gaps) grew ever smaller.

Skill, or alpha, is fast becoming a residual: the explanation that remains when all other factors have been discounted. That is not yet a crisis for the industry, mainly because it is still so hard for clients to distinguish skill from luck. But for any thoughtful fund-management executive, it ought to be a long-term worry.

---

* “130/30: The New Long-Only” by Andrew Lo and Pankaj Patel, December 2007

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

Bond insurance

Testing the waters

Jan 3rd 2008 | NEW YORK
From The Economist print edition

America's most admired investor dips a toe in a troubled market

"BE FEARFUL when others are greedy and be greedy when others are fearful." Thus wrote Warren Buffett in the 2006 annual report of Berkshire Hathaway, his holding company. True to his maxim, in the last week of December Mr Buffett splashed out $4.5 billion for a majority stake in Marmon Holdings, an industrial conglomerate, and €300m ($441m) for a reinsurer owned by ING Group of the Netherlands. But his most intriguing investment, announced on December 28th, was his smallest: $105m to fund Berkshire Hathaway Assurance Corporation (BHAC), a start-up that will insure bonds issued by American states, cities and counties to finance schools, roads, hospitals and other public projects.

There are good reasons to be scared stiff about the bond-insurance business, an arcane but important part of the American financial system that has underwritten roughly half of the $2.6 trillion-worth of municipal bonds outstanding. Bond insurers win business because their pristine credit ratings signal to investors that they have deep enough pockets to pay claims if borrowers default. But those top-notch ratings are now hanging by a thread. Keen to diversify, the insurers jumped onto the housing bandwagon, underwriting billions of dollars of private mortgage-backed securities. Now they face the prospect of huge claims from investors whose subprime-laced assets have soured.

Reuters

There's more where that came from

Some hedge-fund managers have been giving warning for years that the insurers' mortgage-related risks would one day overwhelm their flimsy capital bases. Rating agencies are belatedly reaching the same conclusion. On December 19th Standard and Poor's slashed its rating of ACA Financial Guaranty Corporation, a small insurer, to junk grade. The industry's bigger fry have also been told to shore up their capital fast or face downgrades. If that happens, the credit ratings of bonds underwritten by the insurers will fall, driving down their value and further crimping the lending capacity of bondholding banks. Borrowing costs for states, cities and counties will also rise.

There had been speculation that Mr Buffett would ride to the rescue by buying a struggling insurer. After all, he has repeatedly said that he is looking for "elephants", $5 billion-20 billion deals that would soak up the cash that pours out of Berkshire's other businesses. And the firm has a history of snapping up insurance assets such as GEICO, now one of America's biggest car insurers, and General Re, a big reinsurer. Instead Berkshire has given birth to a mouse. Rob Haines of CreditSights, a research firm, estimates that, with a conservative leverage ratio, BHAC's capital will let it underwrite some $10 billion of business; MBIA and Ambac Assurance, two of the biggest firms in the industry, insure several times that amount each year.

Mr Buffett's caution is understandable. He still bears the scars from an ill-fated derivatives venture at General Re. (He may also be dragged into a separate fraud trial involving General Re, which is due to start on January 7th.) Bond insurers are now staring into their own abyss of liabilities, a legacy of lousy risk management. "When Buffett acquires, he wants successful companies with good management, and none of the bond insurers qualify on those counts at the moment," says Donald Light, a senior analyst at Celent, a research firm. Better, then, to start with a clean sheet at BHAC, which will handle only municipal business and plans to charge a premium for use of its unblemished AAA-rating. If business is brisk, more of Berkshire's cash can be funnelled to the new firm, whose licence was approved by New York state's insurance regulator in double-quick time.

The regulator's alacrity is understandable: it reckons that Mr Buffett's move will be seen as a vote of confidence in a worryingly fragile market. The unspoken hope is that it will encourage other investors to

overcome their fears. Few are as well-placed as Mr Buffett to do so, however. Reckless greed got the bond-insurance market into trouble; Mr Buffett's more refined gluttony can only do so much to get the industry out of it.

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

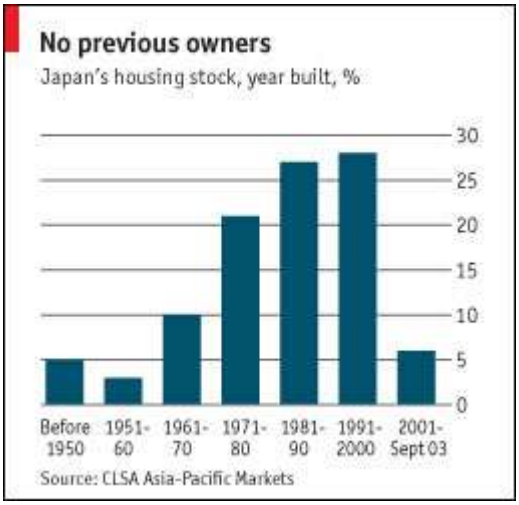
Japan's property markets

Building wealth

Jan 3rd 2008 | TOKYO
From The Economist print edition

Homes in Japan last for only 30 years. The government wants to change that

Get article background



HOUSES in Japan are supposed to be built to withstand earthquakes. Even so, few of them defy demolition for more than a few decades. The housing stock is amazingly young: more than 60% of all Japanese homes were built after 1980 (see chart). That is because there is almost no market for old homes in Japan. New legislation to be put forward this month will try to remedy that.

The roots of Japan's unusual housing market go back centuries. Buildings were often razed by earthquakes or fire, so durable houses were rare. Earthquake insurance largely did not exist until the 1990s (and even today is little used).

In post-war Japan land has value but buildings do not. The law separates the ownership of the land and the structure, so the two are distinct in Japanese minds. After the war, the government sought to foster private home-ownership by offering tax incentives for new buildings. The policy was a great success. Arguably too great: by 1968 there were more homes than households to occupy them.

At the same time, tax burdens abound for selling land with old buildings. After around 30 years homes are demolished for new ones to spring up. Because the lifetime of houses is short, cheap construction materials are used and the buildings are not maintained. There is no tradition of do-it-yourself home upkeep. Just as there is little interest in secondhand furniture or clothes among the sanitation-obsessed Japanese, so too home-owners prefer to build anew rather than refurbish the old.

There is also a dearth of institutions and expertise that might oil the gears of a market in old houses, from surveyors to judge the quality of a property to banks that assess its value and provide a mortgage. As a result, where 89% of British homes have had more than one owner, and 78% of homes in America and 66% in France, only 13% of Japanese homes have ever been resold.

But attitudes today are changing. The constant rebuilding places an unnecessary drain on people's financial resources, says Koichi Teramoto of the Ministry of Land. A couple easing into retirement may demolish their house to sell the land in order to move into a smaller abode that they must then build from scratch. Although better-built homes cost more up front, they cost far less over time—as much as one-third less after a few generations, according to Mr Teramoto. The ministry also worries that the constant demolition is terrible for the environment.

The costs to the wider economy are also great. A home is more than a man's castle: it is typically his most important financial asset. Not in Japan. For most of the post-war period land prices soared, so the lack of a housing resale market was not a problem. But since the bursting of the property bubble in the early 1990s, most land prices have fallen: some are as much as 80% off their peak. That houses also depreciate in value constrains consumption and adds to deflationary pressures; which in turn pushes people to be particularly cautious savers (more than 50% of Japan's household wealth is kept as cash in bank accounts) and helps to keep interest rates barely above zero.

To remedy the problem, the prime minister, Yasuo Fukuda, this month plans to introduce new tax rules to encourage the construction of more durable buildings. Under a draft of the “200-year homes” policy, national, regional and municipal property taxes may be reduced by between 25% and 75% for up to

seven years for houses that adhere to robust building standards. Mortgages for such homes can be longer (50 years as opposed to the traditional maximum of 35 years) and building approvals will be simpler.

Property experts think these measures are too timid, however. They argue that a true market for used homes needs standardised methods of construction, as well as more transparency about the quality and value of houses. Far more generous tax incentives are vital too. Until then, homes in Japan will continue to fare like the country's ubiquitous electronic gadgets: be treated as disposable.

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

Trade

The sun sets on Cotonou

Jan 3rd 2008 | DELHI
From The Economist print edition

An end-of-year rush to replace an outdated trade agreement

JUNIOR LODGE, a trade negotiator for the 15 members of the Caribbean Forum, describes the signing of the group's new trade agreement with the European Union (EU) on December 16th as a “dark moment”—but mainly because of the late hour (1:10am Barbados time) at which the deal was inked. The agreement itself will be good for the Caribbean, he says, despite the “tremendous sacrifices” it entails.

The countries he represents belong to the larger African, Caribbean and Pacific (ACP) group of nations. For decades this group has enjoyed privileged access to the EU's rich and sheltered market, a legacy of empire enshrined in the Cotonou agreement. But this cosy regime is crumbling. On December 31st Cotonou ceased to be legal under the rules of the World Trade Organisation (WTO), which frowns on such favouritism. The EU is bent on replacing these trade preferences with new economic “partnership agreements” (EPAs) based on “reciprocity” not dependency. Hence those late-night talks in Barbados.

The WTO's members are not supposed to discriminate against each other. But the rules make an exception for regional clubs, like the EU itself, which can liberalise trade among their members without extending the privilege to outsiders. In this loophole the EU saw a solution to the Cotonou problem. It divided the 79 ACP countries into six regional groups. The groups would enjoy generous access to the European market and also get a big dollop of aid. In return they had to trade more freely among themselves, and, most controversially, open their own markets to EU firms. Otherwise, the EU said, it would be forced to raise tariffs against them on January 1st.

This vision has united critics of every stripe. Free-traders worry that by lowering tariffs on European products but not on others, the ACP countries will end up buying goods from the EU they might have got more cheaply elsewhere. Critics of free trade claim that a flood of EU imports will ruin the ACP's fledgling industries. Both camps fret about the loss of tariff revenues on which many ACP governments rely.

The Caribbean is perhaps the only region that has tried to make the most of the scheme. Most other ACP countries buried their “head in the sand”, says Chris Stevens of the Overseas Development Institute, a London think-tank. The poorest members had a fall-back: they qualify for duty-free access to the EU market under its “Everything But Arms” initiative. The Pacific Islands do little trade with the EU anyway. Nigeria knew its biggest export—oil—would always be welcome in the European market. But everyone else faced a ruinous jump in tariffs as 2008 began.

The last two months of 2007, therefore, saw a disorderly scramble to avert that disaster. Several groups splintered, as countries sought a separate peace that would safeguard their immediate interests. Ghana and Côte d'Ivoire, for example, broke with their West Africa group and signed a stop-gap “interim” deal that will avert tariff hikes on products such as Ivorian bananas or Ghanaian processed cocoa. The group says it needs another 18 months to reach a full agreement.

What have these countries conceded in this last-minute rush? Perhaps not too much. Most have promised to cut tariffs on over 80% of EU imports, but not before 2022. The claim by strident non-governmental organisations, that the EU was intent on prising open ACP markets to satisfy its own commercial interests, was always overblown. Most ACP markets are just too small to excite such mercantile greed.

More plausibly, the EU wants an exit from an outdated agreement that it no longer wants to defend at the WTO and that complicates its dealings with other developing economies (now eligible to enter into EPAs). The EU “has had the ACP in its pocket for a long while,” says Mr Lodge, but Brazil, Russia, India and China are “where the action is”. It would not be the first time Europeans have hoped for an honourable exit from a colonial entanglement, only to settle for a hasty one.

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com FINANCE & ECONOMICS ECONOMICS FOCUS

Economics focus

An old Chinese myth

Jan 3rd 2008
From The Economist print edition

Contrary to popular wisdom, China's rapid growth is not hugely dependent on exports

Get article background

MOST people suppose that China's economic success depends on exporting cheap goods to the rich world. If so, its growth would be seriously dented by a stuttering American economy. Headline figures show that China's exports surged from 20% of GDP in 2001 to almost 40% in 2007, which seems to suggest not only that exports are the main driver of growth, but also that China's economy would be hit much harder by an American downturn than it was during the previous recession in 2001. If exports are measured correctly, however, they account for a surprisingly modest share of China's economic growth.

The headline ratio of exports to GDP is very misleading. It compares apples and oranges: exports are measured as gross revenue while GDP is measured in value-added terms. Jonathan Anderson, an economist at UBS, a bank, has tried to estimate exports in value-added terms by stripping out imported components, and then converting the remaining domestic content into value-added terms by subtracting inputs purchased from other domestic sectors. At first glance, that second step seems odd: surely the materials which exporters buy from the rest of the economy should be included in any assessment of the importance of exports? But if purchases of domestic inputs were left in for exporters, the same thing would need to be done for all other sectors. That would make the denominator for the export ratio much bigger than GDP.

Once these adjustments are made, Mr Anderson reckons that the "true" export share is just under 10% of GDP. That makes China slightly more exposed to exports than Japan, but nowhere near as export-led as Taiwan or Singapore (which on January 2nd reported an unexpected contraction in GDP in the fourth quarter of 2007, thanks in part to weakness in export markets). Indeed, China's economic performance during the global IT slump in 2001 showed that a collapse in exports is not the end of the world. The annual rate of growth in its exports fell by a massive 35 percentage points from peak to trough during 2000-01, yet China's overall GDP growth slowed by less than one percentage point. Employment figures also confirm that exports' share of the economy is relatively small. Surveys suggest that one-third of manufacturing workers are in export-oriented sectors, which is equivalent to only 6% of the total workforce.

Even if the true export share of GDP is smaller than generally believed, surely the dramatic increase in China's exports implies that they are contributing a rising share of GDP growth? Mr Anderson's work again counsels caution. Although the headline exports-to-GDP ratio has almost doubled since 2000, the value-added share of exports in GDP has been surprisingly stable over the same period (see left-hand chart). This is explained by China's shift from exports with a high domestic content, such as toys, to new export sectors that use more imported components. Electronic products accounted for 42% of total manufactured exports in 2006, for example, up from 18% in 1995. But the domestic content of electronics is only a third to a half that of traditional light-manufacturing sectors. So in value-added terms exports have risen by far less than gross export revenues have.

Many of China's foreign critics remain sceptical. They argue that China's massive current-account surplus (estimated at 11% of GDP in 2007) proves that it produces far more than it consumes and relies on foreign demand to buy the excess. In the six years to 2004, net exports (ie, exports minus imports) accounted for only 5% of China's GDP growth; 95% came from domestic demand. But since 2005, net exports have contributed more than 20% of growth (see right-hand chart).

This is due not to faster export growth, however, but to a sharp slowdown in imports. And even if the contribution from net exports fell to zero, China's GDP growth would still be close to 9% thanks to strong domestic demand. The boost from net exports is in any case unlikely to vanish, even if America does sink into recession, because exports to other emerging economies, where demand is more robust, are bigger than those to America. According to Standard Chartered Bank, Asia and the Middle East accounted for more than 40% of China's export growth in the first ten months of 2007, North America for less than 10%.

Multiplier effects

China's economy is driven not by exports but by investment, which accounts for over 40% of GDP. This raises an additional concern: that weaker exports could lead to a sharp drop in investment because exporters would need to add less capacity. But Arthur Kroeber at Dragonomics, a Beijing-based research firm, argues that investment is not as closely tied to exports as is often assumed: over half of all investment is in infrastructure and property. Mr Kroeber estimates that only 7% of total investment is directly linked to export production. Adding in the capital spending of local firms that produce inputs sold to exporters, he reckons that a still-modest 14% of investment is dependent on exports. Total investment is unlikely to collapse while investment in infrastructure and residential construction remains firm.

An American downturn will cause China's economy to slow. But the likely impact is hugely exaggerated by the headline figures of exports as a share of GDP. Dragonomics forecasts that in 2008 the contribution of net exports to China's growth will shrink by half. If the impact on investment is also included, GDP growth will slow to about 10% from 11.5% in 2007. This is hardly catastrophic. Indeed, given Beijing's worries about the economy overheating, it would be welcome.

The American government frequently accuses China of relying excessively on exports. But David Carbon, an economist at DBS, a Singaporean bank, suggests that America is starting to look like the pot that called the kettle black. In the year to September, net exports accounted for more than 30% of America's total GDP growth in 2007. Another popular belief looks ripe for reappraisal: it seems that domestic demand is a bigger driver of China's growth than it is of America's.

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

Abolishing ageing

How to live forever

Jan 3rd 2008
From The Economist print edition

It looks unlikely that medical science will abolish the process of ageing. But it no longer looks impossible

Stephen Jeffrey

"IN THE long run," as John Maynard Keynes observed, "we are all dead." True. But can the short run be elongated in a way that makes the long run longer? And if so, how, and at what cost? People have dreamt of immortality since time immemorial. They have sought it since the first alchemist put an elixir of life on the same shopping list as a way to turn lead into gold. They have written about it in fiction, from Rider Haggard's "She" to Frank Herbert's "Dune". And now, with the growth of biological knowledge that has marked the past few decades, a few researchers believe it might be within reach.

To think about the question, it is important to understand why organisms—people included—age in the first place. People are like machines: they wear out. That much is obvious. However a machine can always be repaired. A good mechanic with a stock of spare parts can keep it going indefinitely. Eventually, no part of the original may remain, but it still carries on, like Lincoln's famous axe that had had three new handles and two new blades.

The question, of course, is whether the machine is worth repairing. It is here that people and nature disagree. Or, to put it slightly differently, two bits of nature disagree with each other. From the individual's point of view, survival is an imperative. You cannot reproduce unless you are alive. A fear of death is a sensible evolved response and, since ageing is a sure way of dying, it is no surprise that people want to stop it in its tracks. Moreover, even the appearance of ageing can be harmful. It reduces the range of potential sexual partners who find you attractive—since it is a sign that you are not going to be around all that long to help bring up baby—and thus, again, curbs your reproduction.

The paradox is that the individual's evolved desire not to age is opposed by another evolutionary force: the disposable soma. The soma (the ancient Greek word for body) is all of a body's cells apart from the sex cells. The soma's role is to get those sex cells, and thus the organism's genes, into the next generation. If the soma is a chicken, then it really is just an egg's way of making another egg. And if evolutionary logic requires the soma to age and die in order for this to happen, so be it. Which is a pity, for evolutionary logic does, indeed, seem to require that.

The argument is this. All organisms are going to die of something eventually. That something may be an accident, a fight, a disease or an encounter with a hungry predator. There is thus a premium on reproducing early rather than conserving resources for a future that may never come. The reason why repairs are not perfect is that they are costly and resources invested in them might be used for reproduction instead. Often, therefore, the body's mechanics prefer lash-ups to complete rebuilds—or simply do not bother with the job at all. And if that is so, the place to start looking for longer life is in the

repair shop.

Seven deadly things

One man who has done just that is Aubrey de Grey. Dr de Grey, who is an independent researcher working in Cambridge, England, is a man who provokes strong opinions. He is undoubtedly a visionary, but many biologists think that his visions are not so much insights as mischievous mirages, for he believes that anti-ageing technology could come about in a future that many now alive might live to see.

Vision or mirage, Dr de Grey has defined the problem precisely. Unlike most workers in the field, he has an engineering background, and is thus ideally placed to look into the biological repair shop. As he sees things, ageing has seven components; deal with all seven, and you stop the process in its tracks. He refers to this approach as strategies for engineered negligible senescence (SENS).

The seven sisters that Dr de Grey wishes to slaughter with SENS are cell loss, apoptosis-resistance (the tendency of cells to refuse to die when they are supposed to), gene mutations in the cell nucleus, gene mutations in the mitochondria (the cell's power-packs), the accumulation of junk inside cells, the accumulation of junk outside cells and the accumulation of inappropriate chemical links in the material that supports cells.

It is quite a shopping list. But it does, at least, break the problem into manageable parts. It also suggests that multiple approaches to the question may be needed. Broadly, these are of two sorts: to manage the process of wear and tear to slow it down and mask its consequences, or to accept its inevitability and bring the body in for servicing at regular intervals to replace the worn-out parts.

Eat up your greens

Managing wear and tear may not be as complicated as it looks, for the last five items on Dr de Grey's list seem to be linked by a single word: oxidation. Regular visitors to the “health and beauty” sections of high-street pharmacies will, no doubt, have come across creams, pills and potions bearing the word antioxidant on their labels and hinting—though never, of course, explicitly saying—that they might possibly have rejuvenating effects. These products are the bastard children of a respectable idea about one of the chief causes of ageing: that one big source of bodily wear and tear, at least at the chemical level, is the activity of the mitochondria.

Mitochondria are the places where sugar is broken down and reacted with oxygen to release the energy needed to power a cell. In a warm-blooded creature such as man, a lot of oxygen is involved in this process, and some of it goes absent without leave. Instead of reacting with carbon from the sugar to form carbon dioxide, it forms highly reactive molecules called free radicals. These go around oxidising—and thus damaging—other molecules, such as DNA and proteins, which causes all sorts of trouble. Clear up free radicals and their kin, and you will slow down the process of ageing. And the chemicals you use to do that are antioxidants.

This idea goes back to one of the founders of scientific gerontology, Bruce Ames of the University of California, Berkeley. Dr Ames began his career studying cancer. He found that damage to certain genes was a cause of cancer. These genes evolved to keep tumours at bay by stopping cells dividing too readily, and the damage was often done by oxidation. Gradually, his focus shifted to the more general damage that oxidation can do—and what might, in turn, be done about it.

Some vitamins, such as vitamin C, are antioxidants in their own right. This is the basis of the high-street propaganda, though there is no evidence that consuming such antioxidants in large quantities brings any benefit. A few years ago, however, Dr Ames found he could pep up the activity of the mitochondria of elderly rats—with positive effects on the animals' memories and general vigour—by feeding them two other molecules: acetyl carnitine and lipoic acid. These help a mitochondrial enzyme called carnitine acetyltransferase to do its job. Boosting their levels seems to compensate for oxidative damage to this enzyme. He also reviewed the work of other people and found about 50 genetic diseases caused by the failure of one enzyme or another to link up with an appropriate helper molecule. Such helpers are often B vitamins, and the diseases were often treatable with large doses of the appropriate vitamin.

The enzyme damage in these diseases is similar to that induced by oxidation, so Dr Ames suspects that

its effects, too, can be ameliorated by high doses of vitamins. He has gathered evidence from mice to support this idea, but whether it is the case in people has yet to be tested. Nor is it easy to believe it ever will be. The necessary clinical trials would be long-winded. They would also be expensive—and there is no reason for vitamin companies to pay for them since sales are already buoyant and the products could not be patented. Nor is Dr Ames claiming vitamins will make you live longer than a natural human lifespan, even if he thinks they might prolong many individual lives. For that, other technologies will need to be invoked.

Stemming time's tide

One way that might let people outlive the limit imposed by disposable somas is to accept the machine analogy literally. When you take your car to be serviced or repaired, you expect the mechanic to replace any worn or damaged parts with new ones. That, roughly, is what those proposing an idea called partial immortalisation are suggesting. And they will make the new parts with stem cells.

The world has heard much of stem cells recently. They come in several varieties, from those found in embryos, which can turn into any sort of body cell, to those whose destiny is constrained to becoming just one or a few sorts of cell. The thing about stem cells of all types, which makes them different from ordinary body cells, is that they have special permission to multiply indefinitely.

For a soma to work, most of its component cells have to accept they are the end of the line—which, given that that line in question stretches back unbroken to the first living organisms more than 3 billion years ago, is a hard thing to do. There are, therefore, all sorts of genetic locks on such cells to stop them reproducing once they have arrived at their physiological destination. If these locks are picked (for example by oxidative damage to the genes that control them, as discovered by Dr Ames), the result is unconstrained growth—in other words, cancer. One lock is called the Hayflick limit after its discoverer, Leonard Hayflick. This mechanism counts the number of times a cell divides and when a particular value (which differs from species to species) is reached, it stops any further division. Unless the cell is a stem cell. Every time a stem cell divides, at least one daughter remains a stem cell, even though the other may set off on a Hayflick-limited path of specialisation.

Some partial immortalisers seek to abolish the Hayflick limit altogether in the hope that tissue that has become senescent will start to renew itself once more. (The clock that controls it is understood, so this is possible in principle.) Most, though, fear that this would simply open the door to cancer. Instead, they propose what is known as regenerative medicine—using stem cells to grow replacements for tissues and organs that have worn out. The most visionary of them contemplate the routine renewal of the body's organs in a Lincoln's axish sort of way.

In theory, only the brain could not plausibly be replaced this way (any replacement would have to replicate the pattern of its nerve cells precisely in order to preserve an individual's memory and personality). Even here, though, stem-cell therapists talk openly of treating brain diseases such as Parkinson's with specially grown nerve cells, so some form of partial immortalisation might be on the cards. But it is a long way away—further, certainly, than Dr Ames's vitamin therapy, if that is shown to work.

Neither prevention, nor repair, is truly ready to roll out. But there is one other approach, and this is based on the one way of living longer that has been shown, again and again, in animal experiments, to be effective. That is to eat less.

From threadworms to mice, putting an animal on a diet that is near, but not quite at, starvation point prolongs life—sometimes dramatically. No one has done the experiment on people, and no one knows for sure why it works. But it does provide a way of studying the problem with the reasonable hope of finding an answer.

Gluttons for punishment

You would, of course, have to wish a lot for a long life to choose to starve yourself to achieve it. Extrapolating from the mouse data, you would need to keep your calorie intake to three-quarters of the amount recommended by dieticians. That means about 1,800 for sedentary men and 1,500 for sedentary women. But several people are trying to understand the underlying biology, in order to develop short

cuts.

One such is David Sinclair of Harvard University. Unlike those trying to fight the causes of ageing or to repair the damage done, Dr Sinclair thinks he has found, in caloric restriction as the technique is known, a specifically evolved natural anti-ageing mechanism that is quite compatible with disposable-soma theory.

The reason for believing that prolonged life is an evolutionary response to starvation rather than just a weird accident is that when an animal is starving the evolutionary calculus changes. An individual that has starved to death is not one that can reproduce. Even if it does not die, the chance of it giving birth to healthy offspring is low. In this case, prolongation of life should trump reproduction. And that is what happens, even among people. Women who are starving stop ovulating. The billion-dollar trick would be to persuade the body it is starving when it is not. That way people could live longer while eating normally. They might even, if the mechanism can truly be understood, be able to reproduce, as well.

In Dr Sinclair's view, the way caloric restriction prolongs life revolves around genes for proteins called sirtuins. Certainly, these genes are involved in life extension in simple species such as threadworms and yeast. Add extra copies of them to these organisms' chromosomes, or force the existing copies to produce more protein than normal, and life is prolonged. This seems to be because sirtuins control the abundance of a regulatory molecule called nicotinamide adenine diphosphate which, in turn, controls the release of energy in the mitochondria.

The most intriguing connection in this story is with the French paradox. This is the fact that the French tend to eat fatty diets rich in red meat but to have the survival characteristics of those whose diets are lean and vegetarian. Some researchers link this with their consumption of red wine—and, in particular, of a molecule called resveratrol that is found in such wine. Resveratrol activates sirtuins, and some similar molecules activate them much more. It is these sirtuin super-stimulators that interest Dr Sinclair.

Not everyone is convinced, but Dr Sinclair has done experiments on mice that look promising, and has started a company called Sirtris Pharmaceuticals to follow it up. The fact that he is (at least in his own eyes) working with nature rather than against it argues that this is the most promising approach of all.

That said, the logic of the disposable-soma theory is profound. Even working with its grain may do no more than buy a few extra years of healthy living. Dr de Grey's reason for thinking that some people now alive may see their lives extended indefinitely is based on the hope that those few extra years will see further discoveries and improved life-extension technologies based on them—a process he describes as achieving “longevity escape velocity”.

The chances are that it will not work. But hope springs eternal. To end with another quote, this time from Woody Allen, “I don't want to achieve immortality through my work. I want to achieve immortality through not dying.” If any researcher manages to beat evolutionary history and achieve his goal, he might get to do both.

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

The Methuselah mouse

Eyes on the prize

Jan 3rd 2008
From The Economist print edition

Not so much designing a better mousetrap as designing a better mouse

TO ENCOURAGE people to take his ideas seriously, Aubrey de Grey, the originator of the strategies for engineered negligible senescence, has organised a competition. He is offering a prize for the development of what he calls a Methuselah mouse.

There are actually two prizes to be had. One is for longevity, the other for rejuvenation. The prize for longevity can be won by a new strain of mouse—one bred or genetically engineered to live a long time. That for rejuvenation requires treatment to begin when the mice are already in middle age.

Unlike other engineering prizes (for example, the X Prize for lunar exploration), an award of the Methuselah mouse prize is not the end of the matter. The winner establishes a record that others have to break. At the moment the records for longevity and rejuvenation are five years and almost four in an animal that normally lives for three.

How translatable the lesson of a Methuselah mouse will be to people is a matter of debate. The logic of disposable-soma theory (see article) applies to both species. But that theory also explains their different lifespans. The reason mice age rapidly is that they have lots of predators and would get killed quickly anyway. Humans have few predators and tend not to get killed—at least not as easily as mice. It is therefore worthwhile for people to evolve better repair mechanisms than mice, and thus to age more slowly.

The rate at which an animal aged was once believed to be related to its size. Small animals have faster metabolisms, so it was thought they would wear out more quickly. That relationship, however, is just a coincidence caused by the fact that small beasts usually have more predators than large ones do. If they do not, as for some species of bat, then even a small creature can live for decades in just the way that a large animal would. For this reason, it is difficult to draw firm conclusions about human ageing from mice, even Methuselah mice. The repair mechanisms in the two species may be different.

In the Methuselah mice that exist today, the rejuvenation prize is held by a mouse on a calorie-restricted diet (see article). The longevity prize is held by an animal that could not make the receptor molecule for growth hormone and was thus a fraction of the size of normal mice. One explanation for this mouse's abnormally long lifespan is that slower growth allows for “higher fidelity” growth, with better error-correction during development. The result would be a mouse that is born with less congenital damage and which thus takes longer to accumulate enough further damage to kill it.

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

Correction: Human cloning

Jan 3rd 2008

In our article “Me too, too”, published on November 24th, we said that earlier reports of human cloning had turned out to be fraudulent. This referred to Hwang Woo-suk's work in Seoul. The creation of a human blastocyst by somatic-cell nuclear transfer in 2005, by researchers at Newcastle University, in England, was entirely real. We apologise for not making that clear at the time.

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

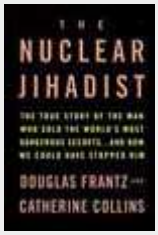
Pakistan's nuclear ambitions

The spider's stratagem

Jan 3rd 2008
From The Economist print edition

Pakistan's role in developing and disseminating nuclear-weapons technology around the world has long been known to America, a new book contends

The Nuclear Jihadist: The True Story of the Man Who Sold the World's Most Dangerous Secrets...and How We Could Have Stopped Him
By Douglas Frantz and Catherine Collins



Twelve; 432 pages; $25

Buy it at
Amazon.com
Amazon.co.uk

Reuters

Get article background

DURING a visit last year to Washington, DC, to try to convince George Bush's administration that she was the answer to Pakistan's problems, Benazir Bhutto promised to hand over Abdul Qadeer Khan, the former head of her nation's atomic bomb programme, who has been living under house arrest in Islamabad since 2004. Under Miss Bhutto's rule, Mr Khan would be made available for questioning—not directly by the Americans, but by the next best thing, the International Atomic Energy Agency in Vienna.

Miss Bhutto is now dead, and it is unlikely that any other Pakistani leader in the near future will allow the

world to know the full details of how a Pakistani scientist came to sell nuclear secrets to Iran, Libya and North Korea. The reaction at home to Miss Bhutto's proposal was outrage. Mr Khan, best known as A.Q. Khan, may officially be in disgrace and forced to live without access to radio, television or the internet, but for many Pakistanis he remains a national hero. When he was hospitalised last year the prime minister sent flowers.

“The Nuclear Jihadist” exposes in detail how Mr Khan, an affable, mediocre metallurgist inspired by the dream of an Islamic bomb, stole nuclear technology from the Dutch laboratory in which he was working in the mid-1970s, moved back to Pakistan to build a giant enrichment complex to make the bomb at Kahuta in Punjab province, and then created a nuclear Wal-Mart to sell the parts to others. The authors describe his work as the linchpin of the “second nuclear age”.

Pakistan's progress towards becoming a nuclear power began with Miss Bhutto's father, Zulfikar Ali Bhutto, who promised, “If India builds the bomb, we will eat grass or leaves, even go hungry, but we will get one of our own.” As for Miss Bhutto, she told the Americans when she was prime minister in the late 1980s that she did not know the details of the nuclear device her scientists were developing. If she was being truthful, the authors suggest she was close to negligent. She assured George Bush senior that she would keep Pakistan from enriching uranium to weapons-grade level, and was promptly sold 60 F-16 fighter jets. America had sold Pakistan 40 F-16s during the Reagan presidency, when it already knew about the nuclear programme.

The book's most revealing passages are about America's role in the affair. The authors argue that successive American administrations knew a lot about Mr Khan's activities, but for larger strategic foreign-policy reasons, chose to do nothing about them. Mr Khan was able to flout international rules on nuclear non-proliferation because American policymakers thought that securing Pakistan's assistance in defeating the Soviet Union in Afghanistan—and, more recently, President Pervez Musharraf's help in fighting terrorism—were more important than limiting the spread of nuclear bombs.

The story of Richard Barlow, a CIA agent who once worked in its directorate of intelligence on proliferation, sums up the American attitude. Mr Barlow had protested that intelligence was being manipulated by the Pentagon to suit the policy adopted by President Bush senior's administration of turning a blind eye to Pakistan's nuclear development. He lost his job. The authors find Mr Barlow at the end of the book denied his state pension, living with two dogs in a motor home.

The one successful recent effort to reverse the spread of nuclear technology involves Libya. After September 11th 2001, Libya's leader, Muammar Qaddafi, agreed to give up his nuclear ambitions in return for better access to western investment and trade. But the authors show that even in this instance American and British intelligence agents believe enough critical technology remains hidden to allow Libya one day to rekindle its programme.

Douglas Frantz, an investigative journalist and former managing editor of the *Los Angeles Times*, and his wife, Catherine Collins, also a journalist, know how to weave complicated material into a persuasive narrative. Mr Musharraf has insisted all along that Mr Khan, the salesman, was a lone wolf who operated under the radar, and that his network has been shut down. The authors argue that this claim is far-fetched: there is still plenty of nuclear know-how in the wrong hands.

The Nuclear Jihadist: The True Story of the Man Who Sold the World's Most Dangerous Secrets...and How We Could Have Stopped Him.
By Douglas Frantz and Catherine Collins.
Twelve; 432 pages; $25

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

The importance of economics

A black and white case

Jan 3rd 2008
From The Economist print edition

AT SOME point in the past 20 years the interested amateur began to struggle to keep up with economic theory. It was just too hard to enjoy the latest academic work unless you had a head for higher mathematics. Recently, however, some writers, notably Paul Krugman in the *New York Times*, have been trying to drag economics back into the mainstream. The subject needs to stay there. As Thomas Sowell, a professor at Stanford University's Hoover Institution, argues, economics lies at the heart of many political issues.

Economic Facts and Fallacies
By Thomas Sowell

Basic Books; 262 pages; $26

Buy it at
Amazon.com
Amazon.co.uk

In a sense, much of what Mr Sowell writes here is predictable. Once you know he is a paid-up member of the free-market school of economics, you can glance at the chapter headings of his book and guess what he is going to say. In “Male-Female Facts and Fallacies” he suggests that women are less discriminated against than is commonly assumed. The chapter on race makes the same argument for ethnic minorities, while his coverage of income distribution concludes that the trend towards widening inequality has been overstated. Mr Sowell believes that governments make matters worse; programmes that subsidise tuition fees at universities, for example, simply allow colleges to charge more. All in all, where there is a left-wing or statist view of economics, he would like to demolish it.

That said, Mr Sowell marshals his arguments with admirable clarity and authority. There is not a chapter in which he does not produce a statistic that both surprises and overturns received wisdom. In discussing whether women are discriminated against in the workplace, he cites a study which found, as far back as 1969, that women academics who never married earned more than male academics of similar standing. Today, never-married, childless, university-educated American women of between 40 and 64 earn $7,000 a year more than similar men. No explanation for this positive gap is forthcoming. But at the very least, it suggests that, where women do earn less, it is due more to rational factors (such as their unwillingness to work long hours) than to sexism.

Any student of public policy ought to reflect hard on some of the author's numbers. The riots that took place in black areas of 1960s America did not occur where the population was most oppressed or impoverished; it was only afterwards, as businesses fled, that the places in which riots had happened turned into economic disaster areas. Moreover, the greatest reductions in black poverty occurred between 1940 and 1960, well before the civil-rights reforms introduced by the Johnson administration.

However, Mr Sowell, who is black himself, occasionally overreaches in his attempts to shock his fellow citizens. He cites a study which argues that what looks like discrimination against blacks might turn out to be the result of employers rewarding workers with greater cognitive skills. But he does not pause to reflect that this skill gap, if it really exists, may be the result of discrimination at an earlier stage of life; in other words, in the education system. Many people will be infuriated by the arguments in this book. But it would still do them good to read it.

Economic Facts and Fallacies.
By Thomas Sowell.
Basic Books; 262 pages; $26

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

German art

Expressionists at war

Jan 3rd 2008 | PARIS
From The Economist print edition

German images of the first world war continue to surprise

AN EXHIBITION at the Musée Maillol in Paris about the brutal and brutalising effects of the first world war, as recorded by a handful of German Expressionist artists, has been drawing crowds of French visitors, many of whose grandfathers and great-grandfathers fought on the other side of the same conflict.

The subject of “Allemagne, les Années Noires”* might be everyday fare in Berlin or Dresden, but in Paris it still has the capacity to shock. This is in part because of the contrast between the stark monochrome vision of this show and the Musée Maillol's colourful permanent collection, which is dedicated to the plump healthy women sculpted by a French contemporary of the German Expressionists, Aristide Maillol.

But the exhibition's strongest message is about the extent to which the first world war, known for a long time as the “great war”, was a wholly new kind of conflict. Gone were the grand Napoleonic set-pieces of the 19th century. Here instead were long, dismal years of attrition symbolised by unknown men in gas masks, fumbling night patrols, the horror of a shell bursting overhead and a horizon limited to bits of no man's land. In one image by Otto Dix (pictured left), a skull sprouts worms from every orifice; in another a sentry—long dead—sits to attention. The mad and the shell-shocked stare out of every wall.

Fondation Otto Dix

Diet of worms

Ludwig Meidner's “Krieg”, a sequence of drawings published in 1914, before he went to war, offer a grotesque early taste of the ghastliness to come. George Grosz never got to the front—he was invalided out early on—but he saw enough of the destruction to produce vivid, spidery battlescapes strewn with corpses. Grosz's exquisite drawings depicting the excesses of the Weimar Republic also include a series called “The Robbers”, a world of sleek black-marketeers and industrialists, war cripples and plump prostitutes, as well as militarists who have learned nothing from their experiences. Most impressive are Dix's etchings and the sketches on postcards which he sent from the front.

For Grosz and Dix the post-war years offered no respite, only another kind of nastiness—a world of wretchedness, debauchery and profiteers. Dix was the eyewitness, often the protagonist, following a whore into a bedroom, recording gruesome deaths and suicides; Grosz was the cartoonist, depicting piggy capitalists, drunken orgies and the social injustice of the Weimar Republic. There is also an early caricature of Hitler as Siegfried, the Wagnerian hero, heralding the next appalling era in German history. No wonder the Expressionists found it hard to rise above the gloom. Ninety years after the conflict ended, their bleak images, as the Maillol's visitors have found, still make as deep an impression as they ever did.

“Allemagne, les Années Noires” is at the Musée Maillol, Paris, until February 4th

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

American social history

An outsider looking in

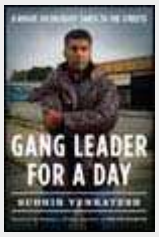
Jan 3rd 2008
From The Economist print edition

IN THE bleak history of America's poor, the construction of Robert Taylor Homes was a low point. Finished in 1962 and torn down just in the past decade, the project was America's biggest public housing scheme, its 28 towers home to almost 30,000 residents in Chicago's South Side.

It was there that Sudhir Venkatesh found himself in 1989, as a sociology student doing fieldwork for his PhD thesis. He met J.T., a rising star in a local gang, by nervously asking him a survey question: “How does it feel to be black and poor?”. Fearing a beating or worse, Mr Venkatesh instead found a source.

Now a professor at Columbia University, Mr Venkatesh has already written extensively about the projects and has had his work mentioned in “Freakonomics”, a 2005 bestseller by Steven Levitt and Stephen Dubner. But with “Gang Leader for a Day” he has attempted a memoir, describing the seven years he spent following J.T. and others. The result is a rich portrait of the urban poor, drawn not from statistics but from vivid tales of their lives and his, and how they intertwined.

Gang Leader for a Day: A Rogue Sociologist Takes to the Streets
By Sudhir Venkatesh



Penguin Press; 320 pages; $25.95.
To be published in Britain by Allen Lane in February

Buy it at
Amazon.com
Amazon.co.uk

In Robert Taylor Mr Venkatesh found an alternate universe. The project had its own economy. In the building where he centred his research, there was crack dealing, of course—and it was a well-oiled operation. Then there was a host of more informal businesses, from trading among mothers—you take care of my kids for two days, I'll feed you for five—to the squatters who did repairs. The building had its own tax system; J.T. and the building's tenant leader, Ms Bailey, took a cut of most business. Justice was enforced by the gang or impromptu militias. Rarely did anyone call the police. Residents thought officers would not come and were scared of them anyway. J.T. maintained a semblance of order, however warped. Total chaos would have disrupted dealing.

Perhaps most confusing for the young Mr Venkatesh was the project's system of right and wrong, a grey muddle stirred by desperation. A young mother might sell her body to a local shopkeeper in exchange for food. A pastor might work with gangs to settle a fight. Even if it has a wobbly needle, J.T.'s moral compass certainly exists. He insists that his gang is a positive force, giving addicts' money back to the neighbourhood through philanthropy.

Mr Venkatesh soon finds himself submerged in this world, whether eating cornbread with J.T.'s mother, joining a fight or inadvertently gathering tenants' secrets for J.T. and Ms Bailey. Mr Venkatesh is a fine storyteller, but his introspection can sound pat and he often states the obvious. “Was it possible”, he asks himself, “to be in the projects for any length of time and remain neutral, an outsider, an objective observer?” He does not need to pose this question outright. It screams from every page.

Mr Venkatesh's relationship with J.T. is the most complex of the book and the heart of the story. J.T. talks about Mr Venkatesh writing his biography. He sees the student as a link to the outside world, someone who might validate his life. J.T. is indeed magnetic and smart and Mr Venkatesh is initially thrilled to be by his side. This excitement culminates half-way through the book, when J.T. lets him assume some gang duties for the day (hence the book's over-dramatic title).

Mr Venkatesh soon grows nervous of getting too close, yet J.T. continues to be his best source. The author's tone is self-deprecating, self-righteous and rather guilty in turn. By the end of the book he sees himself as a hustler like the rest, bending the rules to get what he wants—in his case, information. This book is not J.T.'s biography, but it pays an old debt.

Two critical factors led to the end of J.T.'s career: a crackdown on gangs and the introduction of a federal

programme to tear down projects such as Robert Taylor. Today the tenants of the old housing project are dispersed and face new struggles. In place of the Robert Taylor towers, meanwhile, mixed-income buildings are slowly rising, part of an effort to end the isolation of the poor or, as Mr Venkatesh suggests, to make a profit. Perhaps his most controversial claim is to dismiss the project's demolition as a mere land grab, which seems a little simplistic when considered against the background of the grim tales he tells about life there.

Gang Leader for a Day: A Rogue Sociologist Takes to the Streets.
By Sudhir Venkatesh.
Penguin Press; 320 pages; $25.95.
To be published in Britain by Allen Lane in February

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

Amazon worldwide bestsellers

HP sauce

Jan 3rd 2008
From The Economist print edition

Food, fun and emotional fulfilment filled 2007's bestseller lists—and Harry Potter

EVERYBODY knows who the world's bestselling writer was last year. But how many people realise that the second biggest selling author after J.K. Rowling was a blonde Australian television producer called Rhonda Byrne, who claims she knows the way to emotional feng shui—or how to achieve perfect health, wealth and happiness.

The key to it, she says, is one of the laws of the universe, known throughout history to such sages as Plato, William Shakespeare, Abraham Lincoln and Einstein. The secret is attraction; the power is within. All you need do is to think enough positive thoughts and whatever you want will soon be winging its way towards you. If it doesn't work first time round, repeat with gusto.

Its publishers claim there are 6m copies of “The Secret” in circulation, helped by a nudge from Oprah Winfrey. Who says the taste for alchemy isn't alive and well in the scientific age?

Amazon's top sellers in 2007

1. Harry Potter and the Deathly Hallows
by J.K. Rowling

Click to buy from Amazon.com or Amazon.co.uk

2. The Secret
by Rhonda Byrne

Click to buy from Amazon.com or Amazon.co.uk

3. Eat, Pray, Love: One Woman's Search for Everything Across Italy, India and Indonesia
by Elizabeth Gilbert

Click to buy from Amazon.com or Amazon.co.uk

4. Harry Potter und die Heiligtümer des Todes
by J.K. Rowling

Click to buy from Amazon.de

5. A Thousand Splendid Suns
by Khaled Hosseini

Click to buy from Amazon.com or Amazon.co.uk

6. The Dangerous Book for Boys
by Conn Iggulden and Hal Iggulden

Click to buy from Amazon.com or Amazon.co.uk

7. Deceptively Delicious: Simple Secrets to Get Your Kids Eating Good Food
by Jessica Seinfeld

Click to buy from Amazon.com or Amazon.co.uk

8. Good to Great: Why Some Companies Make the Leap...and Others Don't
by Jim Collins

Click to buy from Amazon.com or Amazon.co.uk

9. Water for Elephants: A Novel
by Sara Gruen

Click to buy from Amazon.com or Amazon.co.uk

10. StrengthsFinder 2.0: A New and Upgraded Edition of the Online Test from Gallup's Now, Discover Your Strengths
by Tom Rath

Click to buy from Amazon.com or Amazon.co.uk

Source: Global sales from Amazon.com, Amazon.co.uk, Amazon.ca, Amazon.de, Amazon.fr and Amazon.jp

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

Corrections: Rush Limbaugh and Noël Coward

Jan 3rd 2008
From The Economist print edition

In our review of John Bolton's memoir, “Surrender is Not an Option”, we referred to Rush Limbaugh as a television talk-show host. He is, of course, best known for his radio show. In the same issue a misattributed photograph led us to run a picture of Gertrude Lawrence with Ivor Novello instead of Noël Coward (see article). Our apologies to all.

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

Benazir Bhutto

Jan 3rd 2008
From The Economist print edition

Benazir Bhutto, Pakistani politician, was killed on December 27th, aged 54

AFP

WHEN Zulfikar Ali Bhutto was deposed as Pakistan's prime minister in 1977, his 24-year-old daughter, Benazir, looked on the bright side. She expected General Zia ul-Haq, the coup leader, to hold elections in a few months. “Don't be an idiot, Pinkie,” said her father, using the nickname inspired by her rosy complexion as an infant, “Armies do not take over power to relinquish it.”

Benazir idolised her father, who was executed by the military regime two years later. She inherited the leadership of his Pakistan People's Party—still the country's biggest—and some of his attributes: the curious, potent blend of idealism and cynicism, of wilful blindness and breathtaking courage, of populist charisma and elitist arrogance. Yet she seems never fully to have absorbed that piece of paternal wisdom. She devoted the last years of her life to trying to topple—or share power with—another coup leader, Pervez Musharraf, Pakistan's president.

Benazir straddled three very different worlds. One was a feudal fief: her family's land in Sindh province. As a child, she loved to hear the story of how Charles Napier, the British conqueror of Sindh, had in 1843 marvelled at the extent of the Bhutto holdings. After her father's death, she found herself on the ancestral turf adjudicating over marital disputes among local villagers as if they were her serfs. When she married, it was an arranged match, with a Sindhi bigwig, Asif Ali Zardari, whom she described in her autobiography as “the heir to the chiefdom of the 100,000-strong Zardari tribe”. When they met in London, he wooed her with crates of mangoes from Fortnum & Mason, and *marrons glacés*. They had three children, and she was fiercely loyal to him, even after friends as well as foes came to regard him as sleazy and corrupt.

Benazir also belonged to the world of the international elite. She was educated at a convent in Karachi, and then at Harvard and Oxford. A photograph of her at college in America in the early 1970s, in T-shirt and jeans, against a dormitory wall bedecked with psychedelic posters, bears out her recollection that she resembled Joan Baez, a folk-singer. At Oxford, she would famously drive to London for American ice-cream in her yellow sports convertible. After her death her many friends recalled her little passions—for slushy novels, for lingerie from Victoria's Secret. Yet she had learned by then no longer to let her *dupatta* slip in public to leave her head uncovered.

At Oxford, she impressed her father—also an alumnus—by becoming president of the Union, a debating society with a line in leaden sophomoric wit. In one debate, an opponent described her father as “a tradesman of some description. A butcher, I gather.” Benazir looked as if she had been slapped in the face. Her father earned this sobriquet from the slaughter in East Pakistan as Bangladesh struggled to be born. She remembered watching television in disgust as a Pakistani general surrendered, with a hug, to an Indian. Benazir thought he should have shot himself instead.

That was her third world: Pakistani patriot, centre-left populist, democrat and ruthless politician. Like India's Indira Gandhi, Bangladesh's Sheikh Hasina Wajed, and Myanmar's Aung San Suu Kyi, she risked and suffered much to fulfil her father's legacy. She endured grim years in detention after her father's death. Both her brothers died unnaturally—the younger one in a mysterious poisoning in France, the elder in a murder in Pakistan for which her husband Asif was charged (and exonerated) but some family members still blame her.

Freed, Benazir went into exile in London, then returned home to a tumultuous welcome in 1986. Two years later, after Zia ul-Haq was killed when his plane dropped out of the sky, she was elected to power. For a while, it seemed that the country could put its many troubled years of military rule behind it, and look forward to a democratic future.

But the hopes Benazir had aroused were swiftly disappointed. Her regime was marked by human-rights abuses, incompetence and massive corruption. Mr Zardari became known as Mr 10%. Ousted in 1990 and re-elected in 1993, she was again dismissed in 1996 by the president. Mr Zardari was jailed and she retreated back into exile to escape corruption charges. From there she watched her successor and nemesis, Nawaz Sharif, fall to the Musharraf coup in 1999, and saw Mr Musharraf become an important American ally after September 11th 2001.

There was, however, still a role for Benazir. America saw her as the best way of putting a democratic face on a military dictatorship, so it helped broker the agreement that saw her return to Pakistan in October to fight elections due in January. Islamist militants threatened to kill her. Scores died in a suicide-bombing on the day of her homecoming. Yet she kept campaigning. Vain, selfish and perhaps foolish, Benazir was also very, very brave.

After her assassination, a handwritten will was produced. Foreseeing her own untimely end, it bequeathed her party, like the dynastic heirloom it has become, to her husband, who said he would pass leadership to their 19-year-old son. For a woman who claimed to be driven by a burning desire to bring democracy to Pakistan, it was a curious legacy.

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

Overview

Jan 3rd 2008
From The Economist print edition

The price of a barrel of West Texas Intermediate **crude oil** fleetingly reached $100 a barrel on January 2nd. Meanwhile, the **gold** price rose to $861 a troy ounce, in nominal terms surpassing the peak of $850 reached in January 1980.

American manufacturing had its worst month for almost five years in December. The Institute for Supply Management's index of activity fell sharply from 50.8 to 47.7, the lowest reading since April 2003.

New **home sales** in America tumbled by 9% in November, leaving them 34.4% lower than a year earlier. The market for existing homes looked a little less sickly. Sales rose by 0.4% in November and the stock of unsold homes still on the market eased back from 10.7 to 10.3 months of supply.

Core inflation in **Japan** perked up in November to its highest rate for almost a decade. Consumer prices excluding fresh foods, the gauge favoured by the Bank of Japan, was 0.4% higher than a year earlier. Japan's unemployment rate fell to 3.8%.

Consumer-price inflation in **Germany** eased back from 3.1% to 2.8% in December, according to a preliminary estimate.

House prices in **Britain** fell by 0.5% in December, according to Nationwide, a mortgage lender. The British Bankers Association said that the number of loans approved by its members for house purchase slumped by 43.5% in the year to November.

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

Output, prices and jobs

Jan 3rd 2008
From The Economist print edition

Output, prices and jobs

% change on year ago

	Gross domestic product				Industrial production	Consumer prices			Unemployment
	latest	qtr*	2007†	2008†	latest	latest	year ago	2007†	rate‡, %
United States	+2.8 Q3	+4.9	+2.1	+2.0	+2.1 Nov	+4.3 Nov	+2.0	+2.8	4.7 Nov
Japan	+1.9 Q3	+1.5	+1.9	+1.7	+2.9 Nov	+0.6 Nov	+0.3	nil	3.8 Nov
China	+11.5 Q3	na	+11.5	+9.9	+17.3 Nov	+6.9 Nov	+1.9	+4.7	9.5 2007
Britain	+3.2 Q3	+2.7	+3.1	+2.0	+1.0 Oct	+2.1 Nov§	+2.7	+2.3	5.3 Oct††
Canada	+2.9 Q3	+2.9	+2.5	+2.0	+0.8 Oct	+2.5 Nov	+1.4	+2.3	5.9 Nov
Euro area	+2.7 Q3	+2.8	+2.6	+1.9	+3.8 Oct	+3.1 Nov	+1.9	+2.2	7.2 Oct
Austria	+3.3 Q3	+3.0	+3.1	+2.6	−0.8 Oct	+3.1 Nov	+1.6	+1.9	4.3 Oct
Belgium	+2.6 Q3	+2.2	+2.6	+2.0	+0.6 Oct	+3.1 Dec	+1.6	+1.8	10.7 Nov‡‡
France	+2.2 Q3	+3.2	+1.9	+1.8	+4.0 Oct	+2.4 Nov	+1.4	+1.5	7.9 Q3§§
Germany	+2.5 Q3	+2.8	+2.6	+2.0	+5.9 Oct	+2.8 Dec	+1.4	+2.2	8.4 Dec
Greece	+3.8 Q3	+3.6	+3.8	+2.9	−0.1 Oct	+3.9 Nov	+2.9	+3.0	8.3 Sep
Italy	+1.9 Q3	+1.7	+1.7	+1.3	−1.5 Oct	+2.4 Nov	+1.8	+2.0	5.9 Q3
Netherlands	+4.2 Q3	+7.5	+2.8	+2.2	+2.3 Oct	+1.9 Nov	+1.1	+1.7	4.2 Nov††
Spain	+3.8 Q3	+2.9	+3.7	+2.5	+2.6 Oct	+4.3 Dec	+2.7	+2.8	8.1 Oct
Czech Republic	+6.0 Q3	+5.8	+5.7	+4.6	+8.4 Oct	+5.0 Nov	+1.5	+2.7	5.6 Nov
Denmark	+1.8 Q3	+5.3	+1.5	+1.5	−0.8 Oct	+2.5 Nov	+1.7	+1.6	2.8 Nov
Hungary	+1.0 Q3	+1.2	+2.0	+3.0	+5.9 Oct	+7.1 Nov	+6.4	+7.8	7.3 Oct††
Norway	+3.1 Q3	+5.6	+3.1	+2.9	+4.6 Oct	+1.5 Nov	+2.6	+0.4	2.6 Sep††
Poland	+6.4 Q3	na	+6.5	+5.2	+8.3 Nov	+3.6 Nov	+1.4	+2.3	11.2 Nov‡‡
Russia	+7.6 Q3	na	+7.2	+6.6	+4.7 Nov	+11.5 Nov	+9.0	+8.9	5.8 Oct‡‡
Sweden	+2.5 Q3	+2.4	+3.2	+2.9	+1.0 Oct	+3.3 Nov	+1.7	+2.0	5.2 Nov‡‡
Switzerland	+2.9 Q3	+1.3	+2.7	+2.0	+10.7 Q3	+1.8 Nov	+0.5	+0.8	2.7 Nov‡‡
Turkey	+1.5 Q3	na	+4.9	+4.8	+7.9 Oct	+8.4 Nov	+9.9	+8.7	9.2 Q3‡‡
Australia	+4.3 Q3	+4.1	+4.2	+3.5	+4.6 Q2	+1.9 Q3	+3.9	+2.4	4.5 Nov
Hong Kong	+6.2 Q3	+7.0	+6.1	+4.8	−2.1 Q3	+3.4 Nov	+2.2	+2.0	3.6 Nov††
India	+8.9 Q3	na	+7.9	+7.7	+11.8 Oct	+5.5 Oct	+7.3	+6.5	7.6 2006
Indonesia	+6.5 Q3	na	+6.2	+6.1	+8.3 Oct	+6.6 Dec	+6.6	+6.4	9.8 Feb
Malaysia	+6.7 Q3	na	+6.0	+5.7	+4.7 Oct	+2.3 Dec	+3.0	+2.0	3.1 Q3
Pakistan	+7.0 2007**	na	+6.4	+5.4	+7.4 Sep	+8.7 Nov	+8.1	+7.7	6.2 2006††
Singapore	+6.0 Q4	−3.2	+7.7	+4.8	−1.5 Nov	+4.2 Nov	+0.5	+1.8	1.7 Q3
South Korea	+5.2 Q3	+5.4	+5.0	+4.7	+10.8 Nov	+3.6 Dec	+2.1	+2.5	3.2 Nov
Taiwan	+6.9 Q3	na	+4.5	+4.6	+11.1 Nov	+4.8 Nov	+0.2	+1.8	3.9 Nov
Thailand	+4.9 Q3	+6.3	+4.5	+5.0	+10.8 Oct	+3.2 Dec	+3.5	+2.2	1.2 Sep
Argentina	+8.7 Q3	+11.7	+8.3	+6.0	+4.4 Oct	+8.5 Nov	+10.0	+8.8	8.1 Q3‡‡
Brazil	+5.7 Q3	+6.9	+4.7	+4.5	+10.3 Oct	+4.2 Nov	+3.0	+3.6	8.2 Nov‡‡
Chile	+4.1 Q3	−2.5	+5.4	+4.6	+4.2 Nov	+7.4 Nov	+2.1	+4.2	7.3 Nov††††
Colombia	+6.6 Q3	+6.9	+6.6	+5.5	+8.3 Oct	+5.7 Dec	+4.5	+5.5	9.4 Nov‡‡
Mexico	+3.7 Q3	+5.9	+3.0	+2.8	+3.0 Oct	+3.9 Nov	+4.1	+4.0	3.5 Nov‡‡
Venezuela	+8.7 Q3	na	+7.9	+5.1	+2.7 Sep	+22.5 Dec	+17.0	+18.1	8.5 Q3‡‡
Egypt	+6.9 Q3	na	+7.1	+7.3	+7.5 2007**	+6.9 Nov	+12.1	+9.2	8.8 Q3‡‡
Israel	+4.8 Q3	+6.1	+5.4	+4.3	+6.9 Oct	+2.8 Nov	−0.3	+0.4	7.3 Q3
Saudi Arabia	+4.3 2006	na	+4.7	+6.0	na	+5.4 Oct	+2.7	+4.0	na
South Africa	+5.1 Q3	+4.7	+5.0	+5.1	+5.2 Oct	+8.4 Nov	+5.4	+6.4	25.5 Mar‡‡
MORE COUNTRIES Data for the countries below are not provided in printed editions of *The Economist*									
Estonia	+6.4 Q3	+7.4	+7.1	+5.3	+5.9 Oct	+9.1 Nov	+4.6	+6.4	5.4 Oct
Finland	+4.1 Q3	+3.0	+4.1	+3.2	−1.4 Nov	+2.9 Nov	+2.1	+2.6	6.8 Nov
Iceland	+4.3 Q3	+9.9	+1.8	+2.3	+7.6 2006	+5.9 Dec	+7.0	+5.1	0.8 Nov‡‡
Ireland	+5.4 Q2	−5.5	+4.6	+3.5	+10.2 Oct	+5.0 Nov	+4.4	+4.7	4.6 Nov
Latvia	+10.9 Q3	na	+10.7	+7.5	−1.6 Oct	+13.7 Nov	+6.4	+10.1	5.0 Oct
Lithuania	+10.8 Q3	+10.0	+9.2	+7.4	na	+7.8 Nov	+4.4	+5.6	4.3 Nov
Luxembourg	+5.3 Q2	+5.3	+5.0	+4.3	−1.3 Oct	+3.2 Nov	+2.0	+2.3	4.4 Nov‡‡
New Zealand	+3.8 Q2	+3.4	+3.1	+2.3	+0.5 Q2	+1.8 Q3	+3.5	+2.3	3.5 Q3
Peru	+8.8 Sep	na	+8.0	+6.9	+14.2 Oct	+3.5 Nov	+1.5	+1.7	7.4 Oct‡‡
Philippines	+6.6 Q3	+1.1	+6.9	+5.0	−1.7 Oct	+3.2 Nov	+4.7	+2.7	6.3 Q4‡‡
Portugal	+1.8 Q3	−0.1	+1.8	+2.0	−1.6 Nov	+2.8 Nov	+2.4	+2.3	7.9 Q3‡‡
Slovakia	+9.4 Q3	na	+9.0	+7.0	+17.3 Oct	+3.1 Nov	+4.3	+2.7	7.8 Nov
Slovenia	+6.3 Q3	na	+5.8	+4.6	+10.9 Oct	+5.6 Dec	+2.8	+3.4	7.4 Oct‡‡

*% change on previous quarter, annual rate. †*The Economist* poll or Economist Intelligence Unit estimate/forecast. ‡National definitions. §RPI inflation rate 4.3% in Nov. **Year ending June. ††Latest three months. ‡‡Not seasonally adjusted. §§New series.

Sources: National statistics offices and central banks; Thomson Datastream; Reuters; Centre for Monitoring Indian Economy; OECD; ECB

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

The Economist commodity-price index

Jan 3rd 2008
From The Economist print edition

The Economist commodity-price index

2000=100

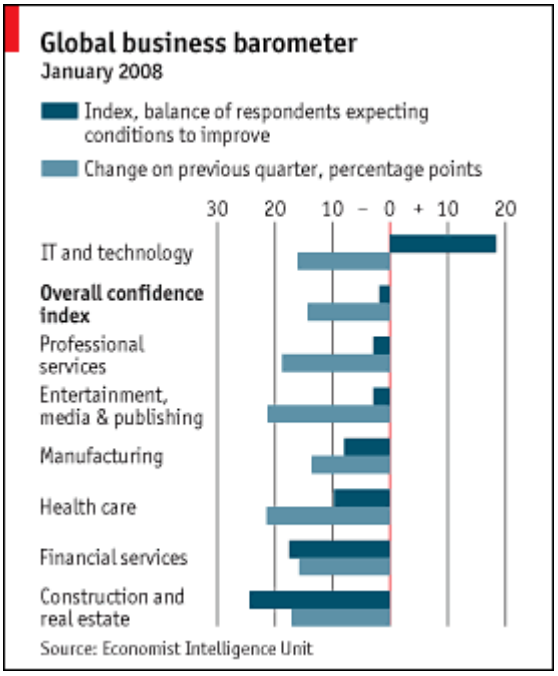
	Dec 18th	Dec 25th	Jan 1st*	% change on one month	% change on one year
Dollar index					
All items	216.5	219.7	218.5	+3.3	+16.8
Food	217.0	217.8	216.1	+5.0	+37.2
Industrials					
All	216.0	222.0	221.5	+1.3	–1.6
Nfa†	177.6	178.6	180.2	+5.0	+21.9
Metals	237.0	245.8	244.2	–0.1	–8.7
Sterling index					
All items	162.7	167.9	166.4	+6.9	+15.8
Euro index					
All items	139.0	141.3	138.2	+4.3	+6.1
Gold					
$ per oz	801.10	811.15	836.15	+4.7	+30.5
West Texas Intermediate					
$ per barrel	90.15	94.01	95.99	+8.7	+58.0

*Provisional. †Non-food agriculturals.

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

Global business barometer

Jan 3rd 2008
From The Economist print edition



Spirits are weighed down, according to the latest global business barometer, a quarterly confidence survey of more than 1,000 executives conducted for *The Economist* by the Economist Intelligence Unit, its sister company (see full report). The overall confidence index, which measures the balance of executives who believe business will improve over those who expect things to deteriorate, dropped into negative territory last quarter. Confidence sagged across all industries and regions compared with the previous poll published in September 2007. North Americans, unsurprisingly, are the glummest group, whereas executives in the BRIC countries (Brazil, Russia, India and China) are the most optimistic.

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

Trade, exchange rates, budget balances and interest rates

Jan 3rd 2008
From The Economist print edition

Trade, exchange rates, budget balances and interest rates

	Trade balance* latest 12 months, $bn	Current-account balance latest 12 months, $bn	Current-account balance % of GDP 2007†	Currency units, per $ Jan 2nd	Currency units, per $ year ago	Budget balance % of GDP 2007†	Interest rates, % 3-month latest	Interest rates, % 10-year gov't bonds, latest
United States	−806.4 Oct	−752.4 Q3	−5.5	–	–	−1.2	4.01	4.03
Japan	+107.6 Oct	+211.3 Oct	+4.7	110	119	−2.6	0.73	1.50
China	+259.8 Nov	+249.9 2006	+11.4	7.29	7.81	0.2	4.44	4.65
Britain	−165.8 Oct	−129.4 Q3	−3.3	0.51	0.51	−3.1	5.85	4.55
Canada	+49.0 Oct	+16.3 Q3	+1.5	1.00	1.17	1.0	3.82	3.98
Euro area	+51.7 Oct	+38.2 Oct	+0.1	0.68	0.76	−0.9	4.67	4.22
Austria	+0.9 Sep	+12.3 Q2	+2.8	0.68	0.76	−0.7	4.67	4.41
Belgium	+19.2 Oct	+13.3 Sep	+2.5	0.68	0.76	−0.4	4.73	4.44
France	−47.4 Oct	−28.3 Oct	−1.2	0.68	0.76	−2.4	4.67	4.41
Germany	+263.1 Oct	+207.8 Oct	+5.8	0.68	0.76	−0.3	4.67	4.32
Greece	−52.1 Sep	−43.2 Oct	−13.6	0.68	0.76	−2.7	4.67	4.53
Italy	−12.0 Oct	−42.3 Oct	−2.5	0.68	0.76	−2.4	4.67	4.63
Netherlands	+54.4 Oct	+57.2 Q3	+7.6	0.68	0.76	−0.3	4.67	4.39
Spain	−128.7 Oct	−126.1 Aug	−9.3	0.68	0.76	1.8	4.67	4.41
Czech Republic	+3.7 Oct	−5.4 Oct	−3.8	17.9	20.8	−3.9	4.04	4.70
Denmark	+4.2 Oct	+4.3 Oct	+1.5	5.06	5.65	3.8	4.95	4.42
Hungary	−0.8 Oct	−6.8 Q3	−5.8	172	191	−6.0	7.50	7.07
Norway	+56.3 Nov	+59.9 Q3	+14.6	5.41	6.25	18.9	5.87	4.71
Poland	−11.7 Oct	−16.2 Oct	−4.1	2.46	2.90	−1.8	5.60	5.90
Russia	+124.0 Oct	+73.5 Q3	+6.1	24.5	26.3	3.0	10.00	6.26
Sweden	+18.7 Nov	+29.4 Q3	+7.0	6.41	6.84	2.9	4.11	4.32
Switzerland	+11.8 Nov	+64.9 Q2	+16.2	1.12	1.22	0.3	2.76	2.97
Turkey	−60.8 Nov	−35.2 Oct	−7.4	1.17	1.41	−2.5	17.08	6.05‡
Australia	−15.9 Oct	−49.9 Q3	−5.8	1.14	1.26	1.6	7.18	6.32
Hong Kong	−22.7 Nov	+26.9 Q3	+9.6	7.81	7.79	2.0	3.40	3.33
India	−67.9 Nov	−10.9 Q3	−1.1	39.4	44.4	−3.4	7.33	7.98
Indonesia	+41.2 Oct	+10.3 Q3	+2.4	9,380	8,970	−1.4	8.00	6.67‡
Malaysia	+29.3 Oct	+28.7 Q3	+13.5	3.31	3.51	−3.2	3.62	4.47‡
Pakistan	−15.2 Nov	−7.3 Q3	−4.7	61.9	60.9	−4.6	9.92	9.96‡
Singapore	+35.8 Nov	+46.3 Q3	+24.5	1.44	1.53	0.3	2.38	2.66
South Korea	+15.3 Dec	+7.2 Nov	+1.0	937	926	0.7	5.80	5.78
Taiwan	+17.6 Nov	+28.4 Q3	+7.5	32.4	32.4	−2.1	2.60	2.64
Thailand	+11.0 Nov	+14.4 Nov	+4.6	33.6	35.6	−1.9	3.75	4.50
Argentina	+10.8 Nov	+6.8 Q3	+2.7	3.15	3.06	1.2	14.06	na
Brazil	+40.0 Dec	+4.7 Nov	+0.5	1.77	2.14	−1.8	11.18	6.16‡
Chile	+24.8 Nov	+6.7 Q3	+4.4	498	538	8.8	6.48	4.25‡
Colombia	−1.8 Sep	−4.8 Q2	−3.6	2,011	2,218	−0.2	9.15	5.85‡
Mexico	−11.2 Nov	−7.5 Q3	−0.5	10.9	10.8	nil	7.43	8.20
Venezuela	+23.4 Q3	+20.2 Q3	+9.2	5.50	3.40§	−1.4	12.88	6.55‡
Egypt	−15.8 Q2	+2.7 Q2	+0.8	5.51	5.71	−7.5	6.80	5.36‡
Israel	−9.7 Nov	+5.9 Q3	+3.8	3.85	4.19	−0.1	4.40	5.71
Saudi Arabia	+146.6 2006	+98.9 2006	+25.5	3.75	3.75	21.8	4.04	na
South Africa	−10.0 Nov	−19.9 Q3	−6.9	6.81	6.91	1.0	11.20	8.52
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*							
Estonia	−4.2 Oct	−3.2 Oct	−14.8	10.6	11.9	3.0	7.30	na
Finland	+12.7 Oct	+14.2 Oct	+6.2	0.68	0.76	4.4	4.46	4.39
Iceland	−1.6 Dec	−3.0 Q3	−14.0	62.5	69.8	5.5	14.15	na
Ireland	+37.2 Oct	−11.1 Q3	−5.2	0.68	0.76	1.2	4.67	4.47
Latvia	−7.2 Oct	−6.4 Sep	−22.2	0.47	0.53	0.4	9.34	na
Lithuania	−6.7 Oct	−4.6 Oct	−14.5	2.34	2.62	−0.5	6.59	na
Luxembourg	−5.9 Sep	+4.6 Q2	na	0.68	0.76	1.0	4.67	na
New Zealand	−4.2 Oct	−10.2 Q3	−8.1	0.77	1.42	4.6	7.30	6.38
Peru	+8.6 Oct	+2.2 Q3	+1.9	0.34	3.19	0.7	5.00	na
Philippines	−4.3 Oct	+6.4 Jun	+6.7	41.2	48.9	−0.8	6.19	na
Portugal	−24.1 Sep	−18.4 Sep	−8.7	0.68	0.76	−3.0	4.67	4.53
Slovakia	−0.9 Oct	−4.0 Aug	−4.7	22.9	26.0	−2.9	4.05	4.60
Slovenia	−2.8 Oct	−1.6 Sep	−3.3	0.68	0.76	−0.5	na	na

*Merchandise trade only. †*The Economist* poll or Economist Intelligence Unit forecast. ‡Dollar-denominated bonds. §Unofficial exchange rate.
Sources: National statistics offices and central banks; Thomson Datastream; Reuters; JPMorgan; Bank Leumi le-Israel; Centre for Monitoring Indian Economy; Danske Bank; Hong Kong Monetary Authority; Standard Bank Group; UBS; Westpac.

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

Markets

Jan 3rd 2008
From The Economist print edition

Markets

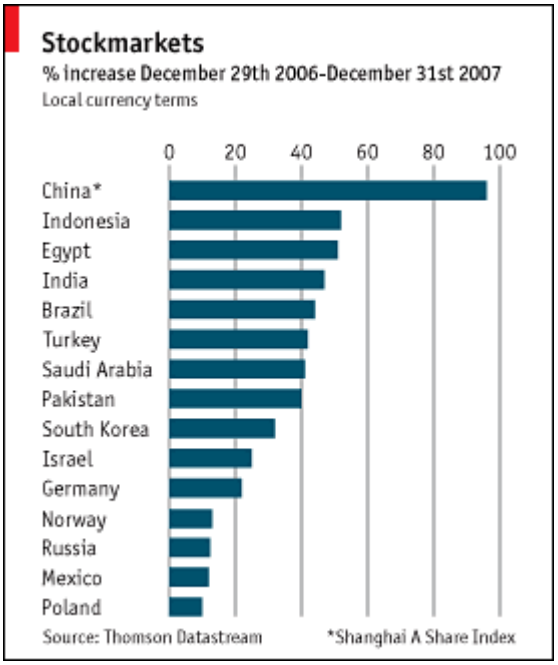
	Index Jan 2nd	% change on one week	% change on Dec 29th 2006 in local currency	% change on Dec 29th 2006 in $ terms
United States (DJIA)	13,044.0	−2.4	+4.7	+4.7
United States (S&P 500)	1,447.2	−3.4	+2.0	+2.0
United States (NAScomp)	2,609.6	−4.2	+8.0	+8.0
Japan (Nikkei 225)	15,307.8	−2.2	−11.1	−3.5
Japan (Topix)	1,475.7	−2.2	−12.2	−4.7
China (SSEA)	5,533.3	+0.8	+96.6	+110.3
China (SSEB, $ terms)	367.2	+1.1	+163.7	+182.2
Britain (FTSE 100)	6,416.7	−1.0	+3.1	+4.3
Canada (S&P TSX)	13,926.8	+1.7	+7.9	+26.1
Euro area (FTSE Euro 100)	1,357.9	−1.1	+6.2	+18.6
Euro area (DJ STOXX 50)	4,339.2	−1.0	+5.3	+17.6
Austria (ATX)	4,509.2	+0.7	+1.0	+12.8
Belgium (Bel 20)	4,114.5	−0.5	−6.2	+4.7
France (CAC 40)	5,550.4	−1.1	+0.2	+11.8
Germany (DAX)*	7,949.1	−0.7	+20.5	+34.6
Greece (Athex Comp)	5,207.4	+1.9	+18.5	+32.3
Italy (S&P/MIB)	38,035.0	−0.4	−8.2	+2.5
Netherlands (AEX)	509.8	−1.2	+2.9	+14.9
Spain (Madrid SE)	1,624.8	−1.9	+4.5	+16.7
Czech Republic (PX)	1,808.6	+2.2	+13.8	+32.8
Denmark (OMXCB)	446.1	−0.3	+5.2	+17.5
Hungary (BUX)	25,889.9	−0.6	+4.2	+15.3
Norway (OSEAX)	570.1	+2.5	+13.5	+30.5
Poland (WIG)	55,521.4	−0.5	+10.1	+30.3
Russia (RTS, $ terms)	2,290.5	+0.3	+10.7	+19.2
Sweden (Aff.Gen)	334.9	−1.3	−8.3	−2.1
Switzerland (SMI)	8,484.5	+0.2	−3.4	+5.4
Turkey (ISE)	54,708.4	−1.2	+39.9	+69.4
Australia (All Ord.)	6,434.1	+0.7	+14.0	+27.8
Hong Kong (Hang Seng)	27,560.5	−2.0	+38.0	+37.4
India (BSE)	20,465.3	+1.4	+48.4	+66.6
Indonesia (JSX)	2,731.5	+0.6	+51.3	+45.1
Malaysia (KLSE)	1,435.7	+0.8	+31.0	+39.6
Pakistan (KSE)	13,353.4	−9.9	+33.0	+30.9
Singapore (STI)	3,461.2	−0.3	+15.9	+23.7
South Korea (KOSPI)	1,853.5	−2.8	+29.2	+28.3
Taiwan (TWI)	8,323.1	+2.0	+6.4	+6.8
Thailand (SET)	843.0	+0.2	+24.0	+33.5
Argentina (MERV)	2,151.7	−1.3	+2.9	+0.3
Brazil (BVSP)	62,815.0	−2.3	+41.2	+70.5
Chile (IGPA)	13,876.0	−1.4	+12.1	+19.9
Colombia (IGBC)	10,648.5	−0.3	−4.6	+6.3
Mexico (IPC)	28,699.1	−4.3	+8.5	+7.8
Venezuela (IBC)	37,903.7	+1.9	−27.4	−55.9
Egypt (Hermes)	94,213.8	+3.7	+53.7	+59.4
Israel (TA-100)	1,159.2	nil	+25.8	+37.7
Saudi Arabia (Tadawul)	10,892.6	−4.6	+37.3	+37.2
South Africa (JSE AS)	29,290.2	−0.7	+17.6	+21.8
Europe (FTSEurofirst 300)	1,487.2	−1.4	+0.3	+12.0
World, dev'd (MSCI)	1,578.1	−1.3	+6.4	+6.4
Emerging markets (MSCI)	1,235.2	−0.7	+35.3	+35.3
World, all (MSCI)	400.5	−1.2	+8.9	+8.9
World bonds (Citigroup)	739.4	+2.7	+12.3	+12.3
EMBI+ (JPMorgan)	434.3	+0.3	+6.6	+6.6
Hedge funds (HFRX)	1,330.6	−0.1	+4.3	+4.3
Volatility, US (VIX)	23.2	18.7	11.6	(levels)
CDSs, Eur (iTRAXX)†	53.1	nil	+127.9	+154.5
CDSs, N Am (CDX)†	91.3	+5.2	+173.1	+173.1
Carbon trading (EU ETS) €‡	22.9	+3.7	+25.8	+40.5

*Total return index. †Credit-default swap spreads, basis points.
Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Reuters; WM/Reuters; JPMorgan Chase; Bank Leumi le-Israel; CBOE; CME; Danske Bank; EEX; HKMA; Markit; Standard Bank Group; UBS; Westpac. ‡New series.

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.

Stockmarkets

Jan 3rd 2008
From The Economist print edition



Stockmarkets in emerging economies made handsome returns last year, with most gains looking prettier still when measured in dollars. Of the stockmarkets featured on this page (see article), China's leapt the most, rising by almost 100%. Turkey, one of the worst-performing exchanges in 2006, rose by just over 40% last year, a gain of more than 70% in dollar terms. Stockmarkets in Egypt and Pakistan enjoyed similar turnarounds. Other emerging markets fared less well. Russia, which had soared by 70% in 2006, rose by less than 20% last year. Investors in developed countries saw far more modest gains. Of the rich-world stockmarkets, only Germany managed an increase of more than 20%.

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.